



# LEHMAN BROTHERS

VICTORIA BERGER-GROSS  
SENIOR VICE PRESIDENT  
HUMAN RESOURCES

October 18, 2000

Ms. Mary Langevin  
2 Adrian Avenue, Apartment 5A  
Bronx, NY 10463

Dear Mary:

We are pleased to extend to you our offer of employment to join Lehman Brothers ("The Firm") as a Senior Market Data Analyst in the Global Infrastructure Services, Distributed Systems Department of the Information Technology Division. Your title of Vice President will be submitted for official approval by our Board of Directors at the next quarterly Board meeting following your start date. We expect your employment to commence on or about October 30, 2000.

For the performance year ending November 30, 2000, your compensation will be as follows:

- Salary at the annualized rate of \$125,000, payable in biweekly installments in accordance with our customary payroll practices.
- A 2000 bonus in the amount of \$75,000, less applicable taxes and deductions, will be paid on or about January 29, 2001 when the Firm pays its annual bonuses.
- At the Firm's option, a portion of your total 2000 and future years' total compensation (combined base salary, bonus, and other compensation) will be payable in restricted stock units pursuant to the Firm's employee stock award program as then in effect.

You will also be eligible to participate in the standard employee benefits program, which will be explained to you during your orientation session.

The salary and bonus amounts set forth above will be paid at the times and in the amounts stated, except that they will not be payable if you have failed to obtain and/or maintain in good standing all applicable licenses and registrations or if, before the dates of scheduled payment, you have resigned, or have been terminated from the Firm because of misconduct, breach of Firm policies or rules, dishonesty, violation of laws or regulations, or substantial and continuing failure to perform employment duties or obligations satisfactorily. The salary and bonus amounts set forth above may be ratably reduced in the event of any authorized leave of absence during 2000. If you should die or become disabled before the bonus payment date, your base salary payments will end (subject to salary continuation in the event of disability), and you or your estate will be paid a pro-rata portion of the minimum bonus set forth above with respect to the year's which your death or disability occurs. Your compensation\* for all periods following performance year 2000 will be determined at the Firm's discretion.

Please understand that the terms and conditions of your employment by our Firm are governed by standard Firm policies. Among other things, this means that you must have and maintain in good standing all applicable licenses and registrations. This also means that this offer of employment is contingent on the successful completion of a background investigation, as well as on your satisfactorily meeting all pre-employment requirements including passing a pre-employment drug screen and producing documentation to verify your identity and eligibility to work in the United States. Please contact Melissa Bauer at (201) 524-2967, to schedule a mutually convenient time for your pre-employment processing.

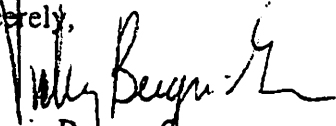
While the above compensation commitments will be honored (absent the listed exceptions), this letter is not a contract of continuing employment. Your employment by the Firm is for no fixed term, and either you or the Firm may terminate the employment relationship at any time and for any reason.

This letter shall be binding upon the Firm and its successors and assigns.

If you agree with the terms outlined in this letter, please acknowledge the same by signing the enclosed copy and returning it to Dalva Durante in the ITD Human Resources Department.

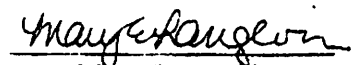
Mary, this is an exciting time to be at Lehman Brothers. We are sure that you will find many opportunities to make a contribution to the Firm.

Sincerely,



Victoria Berger-Gross  
SVP/Director, Human Resources  
Information Technology Division

Accepted on this 30<sup>th</sup> day of October, 2000

  
Mary Langevin

cc: Gregg Somma

\* compensation understood to be defined as bonus (mel)

ML-04

## Personal Award Summary

## LEHMAN BROTHERS | LehmanLive

Data as of August 31, 2008

10204571 Mary Langevin

## AWARD UNITS' OUTSTANDING

Grant Date	Description	Grant Price	Grant Value <sup>2</sup>	Restriction Ends	Units Granted	Dividend Equivalents	Units Delivered	Units Vested <sup>3</sup>	Units Outstanding	Market Value at \$0.044*
07/01/2008	July 2008 RSU	\$20.9600	\$2,070	11/30/2011	98.76	1.26	0.00	0.00	100.02	\$4
12/07/2007	2007 Firmwide Principal	\$47.6000	\$7,763	11/30/2012	163.08	3.36	0.00	0.00	166.44	\$7
12/07/2007	2007 Firmwide Discount	\$47.6000	\$2,588	11/30/2012	54.36	1.10	0.00	0.00	55.46	\$2
12/08/2006	2006 Firmwide Principal	\$57.7700	\$9,746	11/30/2011	168.71	4.99	0.00	0.00	173.70	\$8
12/08/2006	2006 Firmwide Discount	\$57.7700	\$3,248	11/30/2011	56.23	1.65	0.00	0.00	57.88	\$3
11/30/2005	2005 Firmwide Principal	\$47.2500	\$7,500	11/30/2010	158.74	5.82	0.00	164.56	164.56	\$7
11/30/2005	2005 Firmwide Discount	\$47.2500	\$2,500	11/30/2010	52.90	2.00	0.00	0.00	54.90	\$2
12/09/2004	2004 Firmwide Principal	\$32.1750	\$6,750	11/30/2009	209.80	9.41	0.00	219.21	219.21	\$10
12/09/2004	2004 Firmwide Discount	\$32.1750	\$2,250	11/30/2009	69.92	3.30	0.00	0.00	73.22	\$3
12/10/2003	2003 Firmwide Principal	\$26.7700	\$6,000	11/30/2008	224.14	11.98	0.00	236.12	236.12	\$10
12/10/2003	2003 Firmwide Discount	\$26.7700	\$2,000	11/30/2008	74.70	4.00	0.00	0.00	78.70	\$3
<b>Total</b>			<b>\$52,415</b>		<b>1,331.34</b>	<b>48.87</b>	<b>0.00</b>	<b>619.89</b>	<b>1,380.21</b>	<b>\$59</b>
<b>Total Equity</b>										<b>\$59</b>

ML-05

Lehman Brothers

2002 Total Compensation Statement

**CONFIDENTIAL**

Employee : Langevin, Mary  
Division : Information Technology  
Hire Date : November 20, 2000

Stock Program : VP  
Employee Id : 10204571

**COMPENSATION SUMMARY**

<u>Compensation Type</u>	<u>Current - 2002</u>
Paid Salary	\$125,000
Bonus	\$45,000
Total Compensation	\$170,000

**EQUITY SUMMARY in USD**

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$7,440.00	\$54.42	\$40.82	182.26

Your equity award was calculated based on a Total Compensation of \$170,000

RSUs are subject to restrictions until November 30, 2007. They cannot be sold, traded or pledged for that five year period.

All terms and conditions of the awards are subject to the controlling plan documents, including but not limited to your 2002 Restricted Stock Award Agreement, the Employee Incentive Plan and the Employee Incentive Plan Prospectus.

**BONUS PAYMENT SCHEDULE**

Bonus	\$45,000	
Less RSUs	(\$7,440)	
Net Bonus (Before Taxes)	\$37,560	Bonus will be paid on or about January 31, 2003

**ANNUAL SALARY**

Effective Fiscal Year 2003, your annual base salary will be as follows:

Current Annual Salary	\$125,000
-----------------------	-----------

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (on or about January 31, 2003) and not having given or received notice of employment termination before that date. If you are not employed on January 31, 2003 or you have given or received notice of employment termination before that date, you will not be eligible to receive a bonus award or any equity award for fiscal year 2002.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

16-Dec-02

## 2005 Total Compensation Statement

ML-06

CONFIDENTIAL

Employee : Langevin, Mary  
 Division : Information Technology  
 Hire Date : November 20, 2000

Stock Program : VP  
 Employee Id : 10204571

COMPENSATION

<u>Compensation Type</u>	<u>Current - 2005</u>
Paid Salary	\$125,000
Bonus	\$95,000
<b>TOTAL COMPENSATION</b>	<b>\$220,000</b>

EQUITY SUMMARY in USD

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$9,999.99	\$126.00	\$94.50	105.82

Your equity award was calculated based on total compensation of \$220,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation.

All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to controlling plan documents, including the FY 2005 equity award agreements (expected to be finalized in early 2006), the Employee Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	\$95,000	
Less RSUs	(\$10,000)	
<b>Total Cash Payment (Before Taxes)</b>	<b>\$85,000</b>	Payable on or about January 31, 2006

ANNUAL SALARY

Effective Fiscal Year 2006, your annual base salary will be as follows:

Current Annual Salary	\$125,000
-----------------------	-----------

Note: All bonus awards and equity awards are contingent on your being employed on the scheduled bonus award date (on or about January 31, 2006) and not having given or received notice of employment termination before that date.

If you are not employed on January 31, 2006, or you have received notice of employment termination before that date, you will not be eligible to receive a bonus award (including any special awards) or any equity award for fiscal year 2005.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212)526-8346.

12-Dec-05

Lehman Brothers  
2006 Total Compensation Statement  
**CONFIDENTIAL**

Employee : Langevin, Mary  
Division : Information Technology  
Hire Date : 11/20/00

Employee ID : 10204571  
Stock Program : VP

**COMPENSATION**

<u>Compensation Type</u>	<u>Current - 2006</u>
Paid Salary	\$125,000
Bonus	\$108,000
<b>TOTAL COMPENSATION</b>	<b>\$233,000</b>

**EQUITY SUMMARY in USD**

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$12,994.99	\$77.03	\$57.77	224.94

Your equity award was calculated based on total compensation of \$233,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation.

All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to controlling plan documents, including the FY 2006 equity award agreements (expected to be finalized in early 2007), the Employee Incentive Plan and related Prospectus.

**PAYMENT SCHEDULE**

Bonus	\$108,000	
Less RSUs	(\$12,995)	
<b>Total Cash Payment (Before Taxes)</b>	<b>\$95,005</b>	Payable on or about January 31, 2007

**ANNUAL SALARY**

Effective Fiscal Year 2007, your annual base salary will be as follows:

Current Annual Salary	\$125,000	
New Annual Salary	\$130,000	Salary Adjustments will be included in the January 26, 2007 paycheck,
Salary Change	\$5,000	retroactive to November 19, 2006.

The above bonus (including equity awards and any special awards) is contingent on your remaining actively employed through the scheduled bonus award date (on or about January 31, 2007). If you are no longer actively employed on such date, or if you have received notice of employment termination, or are serving out any period of required notice of resignation through such date, you will not be eligible for a bonus or any portion of it.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212)526-8346.

11-Dec-06

ML-08

**Lehman Brothers**  
**2007 Total Compensation Statement**

Employee : Langevin, Mary  
Division : Information Technology  
Hire Date : 11/20/00

Employee ID : 10204571  
Stock Program : VP

**COMPENSATION HISTORY**

<u>Compensation Type</u>	<u>Current - 2007</u>
Paid Salary	\$130,000
Bonus	\$80,000
<b>TOTAL COMPENSATION</b>	<b>\$210,000</b>

**EQUITY SUMMARY in USD**

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$10,350	\$63.47	\$47.60	217.44

Your equity award was calculated based on total compensation of \$210,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

**PAYMENT SCHEDULE**

Bonus	\$80,000	
Less Total RSUs	(\$10,350)	
Total Cash Payment (Before Taxes)	\$69,650	Payable on or about January 31, 2008

**ANNUAL SALARY**

Effective Fiscal Year 2008, your annual base salary will be as follows:

Current Annual Salary	\$130,000
-----------------------	-----------

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

## 2007 Total Compensation Statement

**CONFIDENTIAL**

DO NOT DISTRIBUTE TO EMPLOYEES

Employee : XXXXXXXXXX  
 Division : Information Technology  
 Hire Date : 2/9/04

Employee ID : 10220916  
 Stock Program : VP

**COMPENSATION HISTORY**

<u>Compensation Type</u>	<u>Current - 2007</u>	<u>Previous - 2006</u>	<u>2nd Previous - 2005</u>
Paid Salary	\$120,000	\$100,000	\$90,000
Bonus	\$10,000	\$50,000	\$35,000
<b>TOTAL COMPENSATION</b>	<b>\$130,000</b>	<b>\$150,000</b>	<b>\$125,000</b>

↑ \$10

↑ 8%

**MANAGER NOTES**

	<u>2007 Actual</u>	<u>Prior Year Comparison</u>	<u>Difference</u>	<u>Variance</u>
Comparison to Baseline	\$130,000	\$150,000	(\$20,000)	-13.3%

**EQUITY SUMMARY in USD**

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$4,370	\$63.47	\$47.60	91.81

Your equity award was calculated based on total compensation of \$130,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

**PAYMENT SCHEDULE**

Bonus	\$10,000	
Less Total RSUs	(\$4,370)	
<b>Total Cash Payment (Before Taxes)</b>	<b>\$5,630</b>	Payable on or about January 31, 2008

**ANNUAL SALARY**

Effective Fiscal Year 2008, your annual base salary will be as follows.

Current Annual Salary	\$120,000
-----------------------	-----------

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

2007 Total Compensation Statement

CONFIDENTIAL

DO NOT DISTRIBUTE TO EMPLOYEES

Employee : XXXXXXXXXX  
 Division : Information Technology  
 Hire Date : 3/10/97

Employee ID : 10066483  
 Stock Program : VP

COMPENSATION HISTORY

<u>Compensation Type</u>	<u>Current - 2007</u>	<u>Previous - 2006</u>	<u>2nd Previous - 2005</u>
Paid Salary	\$95,000	\$70,250	\$63,500
Bonus	\$15,000	\$45,000	\$19,000
<b>TOTAL COMPENSATION</b>	<b>\$110,000</b>	<b>\$115,250</b>	<b>\$82,500</b>
Diversity Award	\$5,000		
<b>Total Compensation Plus Awards</b>	<b>\$115,000</b>		

MANAGER NOTES

	<u>2007 Actual</u>	<u>Prior Year Comparison</u>	<u>Difference</u>	<u>Variance</u>
Comparison to Baseline (Without Awards):	\$110,000	\$115,250	(\$5,250)	-4.6%
Firmwide Contribution: Diversity Contributor + Philanthropy Contributor				

EQUITY SUMMARY in USD

	<u>Equity Component</u>	<u>Market Price</u>	<u>Discount Price</u>	<u>Shares</u>
RSUs	\$3,335	\$63.47	\$47.60	70.06

Your equity award was calculated based on total compensation of \$115,000, where "total compensation" includes salary, bonus, and other forms of eligible compensation, including the diversity award. All terms and conditions of equity awards, including those relating to vesting and forfeiture, are subject to the controlling plan documents, including the FY 2007 equity award agreements (expected to be finalized in early 2008), the 2005 Stock Incentive Plan and related Prospectus.

PAYMENT SCHEDULE

Bonus	\$15,000	
Diversity Award	\$5,000	
Less Total RSUs	(\$3,335)	
<b>Total Cash Payment (Before Taxes)</b>	<b>\$16,665</b>	Payable on or about January 31, 2008

ANNUAL SALARY

Effective Fiscal Year 2008, your annual base salary will be as follows:

Current Annual Salary	\$95,000
-----------------------	----------

Your rights to the bonus payment and equity awards are subject to the terms and conditions of the Firm's bonus policy and the controlling equity award documents, as applicable.

If you have any additional questions regarding your compensation or personal data, please contact your divisional HR representative. If you have any questions regarding your equity award, please contact the Compensation Department at (212) 526-8346.

10-Dec-07

## **MANAGER TALKING POINTS For Diversity Award Recipients**

**Name:**

- ♦ In addition to your bonus, the Firm is recognizing you for your individual contributions to our Diversity and Inclusion initiatives.
- ♦ This is the fourth year of the Diversity Recognition Program, the Firm has introduced a new means of identifying employees as diversity contributors. This past September an online survey was administered through which employees had an opportunity to describe their involvement in the Firm's diversity and inclusion efforts. We also solicited feedback from our diversity councils, networks, and divisional HR representatives.
- ♦ We believe strongly that managing diversity is a core competency for all employees and managers in order to promote an inclusive culture.
- ♦ Your contribution to these efforts is appreciated and we want to recognize you for the work done this year above and beyond your daily responsibilities.
- ♦ In this regard, I am aware that you have made a notable impact on the Diversity and Inclusion initiatives this past year including (*see note on comp sheet, if applicable*).
- ♦ In recognition of your commitment/contributions in this area, the Firm has decided to award you with an additional one-time award of \$\_\_\_\_\_.
- ♦ The amount of your individual award was determined based on your level of contribution to the overall diversity strategy and the total number of employees involved in Diversity and Inclusion efforts throughout the Firm.
- ♦ Please understand that this diversity award is separate from your bonus and is not part of your compensation run-rate going forward. However, it will be paid at the same time as your bonus and will be taken into account for purposes of calculating your equity award.
- ♦ Please note that this is a one-time award designed to recognize your commitment to our Diversity and Inclusion initiatives. There is no guarantee that the Firm will provide diversity awards each year, or that you will receive awards in coming years, however at this time, we anticipate that the overall diversity award program will continue in 2008.
- ♦ Thank you for the work you have done this year to enhance the results of our Diversity strategy.

---

Where Vision Gets Built

---

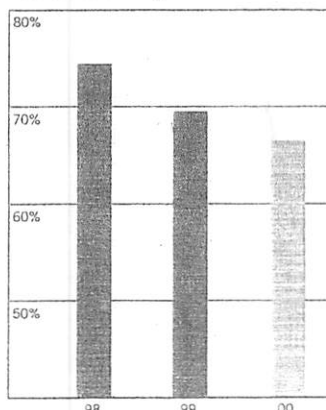
LEHMAN BROTHERS

ANNUAL REPORT 2000

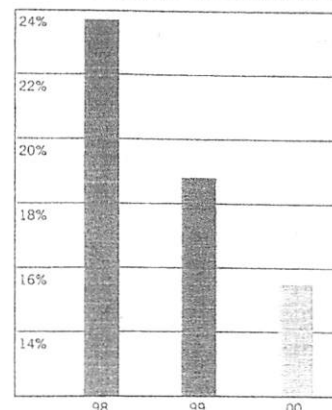
## NON-INTEREST EXPENSES

	Twelve months ended November 30		
(in millions)	2000	1999	1998
Compensation and benefits	\$3,931	\$2,707	\$2,086
Nonpersonnel	1,197	1,002	975
Total non-interest expenses	\$5,128	\$3,709	\$3,061
Compensation and benefits/Net revenues	51.0%	50.7%	50.7%
Nonpersonnel expenses/Net revenues	15.5%	18.8%	23.7%

Non-Interest Expense  
As a Percentage of Net Revenues



Nonpersonnel Expense  
As a Percentage of Net Revenues



Non-interest expenses in 2000 totaled \$5,128 million, up 38% over 1999's non-interest expenses of \$3,709 million. The increase in non-interest expenses was more than offset by the 44% increase in net revenues, highlighting the Company's continued disciplined approach to expense management. This ongoing focus on expenses is a key attribute of the Company's strategic objective of increasing pretax operating margins. Nonpersonnel expenses as a percentage of net revenues decreased from 18.8% in 1999 to 15.5% in fiscal 2000.

Compensation and benefits expense as a percentage of net revenues increased slightly to 51.0% compared to 50.7% in 1999. The increase reflects the Company's continued expansion of its investment banking, equities and European franchises as well as its investment in technology and e-commerce capabilities. Compensation and benefits expense includes the cost of salaries, incentive compensation and employee benefit plans as well as the amortization of deferred stock compensation awards.

**INCOME TAXES** Lehman Brothers 2000 income tax provision of \$748 million represented a 29% effective tax rate. In 1999 and 1998, income tax provisions were \$457 million and \$316 million, respectively, resulting in effective tax rates of 28% in 1999 and 30% in 1998. The effective tax rate increased in 2000 due to an overall increase in the level of pretax income, which lessened the relative impact of certain tax preference items. The increase was partially offset by a decrease in the state and local effective tax rate. Additional information about the Company's income taxes can be found in Note 11 to the Consolidated Financial Statements.

## LIQUIDITY, FUNDING AND CAPITAL RESOURCES

**LIQUIDITY RISK MANAGEMENT** Liquidity risk management is of critical importance to the Company, providing a framework which seeks to ensure that the Company maintains sufficient liquid financial resources to continually fund its balance sheet and meet all of its funding obligations in all market environments. The Company's liquidity framework has been structured so that even in a severe liquidity event the balance sheet does not have to be reduced purely for liquidity reasons (although we may choose to do so for risk reasons). This allows the Company to continue to maintain its customer franchise and debt ratings during a liquidity event.

The Company's liquidity management philosophy incorporates the following principles:

- Liquidity providers are credit and market sensitive. Consequently, firms must be in a state of constant liquidity readiness.
- Firms should not rely on asset sales to generate cash or believe that they can increase unsecured borrowings or funding efficiencies in a liquidity crisis.
- During a liquidity event, certain secured lenders may require higher quality collateral. Firms must therefore not overestimate the availability of secured financing, and must fully integrate their secured and unsecured funding strategies.
- A firm's legal entity structure may constrain liquidity. Regulatory requirements can restrict the flow of funds between regulated and unregulated group entities and this must be accounted for in liquidity planning.

# Report

---

The Board of Directors and Stockholders of  
Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2000 and 1999, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

New York, New York  
January 4, 2001

## Consolidated Statement of Income

(in millions, except per share data)	Twelve months ended November 30		
	2000	1999	1998
<b>REVENUES</b>			
Principal transactions	\$ 3,713	\$ 2,341	\$ 1,373
Investment banking	2,216	1,682	1,441
Commissions	944	651	513
Interest and dividends	19,440	14,251	16,542
Other	134	64	25
Total revenues	26,447	18,989	19,894
Interest expense	18,740	13,649	15,781
Net revenues	7,707	5,340	4,113
<b>NON-INTEREST EXPENSES</b>			
Compensation and benefits	3,931	2,707	2,086
Technology and communications	341	327	316
Brokerage and clearance	264	232	239
Professional fees	184	115	109
Business development	182	122	109
Occupancy	135	116	113
Other	91	90	89
Total non-interest expenses	5,128	3,709	3,061
Income before taxes and dividends on trust preferred securities	2,579	1,631	1,052
Provision for income taxes	748	457	316
Dividends on trust preferred securities	56	42	
Net income	\$ 1,775	\$ 1,132	\$ 736
Net income applicable to common stock	\$ 1,679	\$ 1,037	\$ 649
<b>Earnings per common share</b>			
Basic	\$ 6.89	\$ 4.27	\$ 2.68
Diluted	\$ 6.38	\$ 4.08	\$ 2.60

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Financial Condition

(in millions)	November 30	
	2000	1999
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,160	\$ 5,186
Cash and securities segregated and on deposit for regulatory and other purposes	2,434	1,989
Securities and other financial instruments owned:		
Governments and agencies	27,381	29,959
Mortgages and mortgage-backed	24,670	22,643
Corporate equities	24,042	12,790
Corporate debt and other	16,098	11,096
Derivatives and other contractual agreements	9,583	10,306
Certificates of deposit and other money market instruments	3,433	2,265
	105,207	89,059
Collateralized short-term agreements:		
Securities purchased under agreements to resell	81,242	62,222
Securities borrowed	17,618	19,397
Receivables:		
Brokers, dealers and clearing organizations	1,662	1,674
Customers	7,585	9,332
Others	1,135	1,354
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$855 in 2000 and \$903 in 1999)	671	485
Other assets	1,826	1,408
Excess of cost over fair value of net assets acquired (net of accumulated amortization of \$138 in 2000 and \$129 in 1999)	180	138
<b>Total assets</b>	<b>\$224,720</b>	<b>\$192,244</b>

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Financial Condition (continued)

<small>(in millions, except share data)</small>		November 30	
		2000	1999
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Commercial paper and short-term debt		\$ 5,800	\$ 5,476
Securities and other financial instruments sold but not yet purchased:			
Governments and agencies		14,998	22,396
Derivatives and other contractual agreements		8,568	9,582
Corporate equities		6,623	12,344
Corporate debt and other		5,096	2,288
		35,285	46,610
Collateralized short-term financing:			
Securities sold under agreements to repurchase		110,225	81,083
Securities loaned		7,242	4,568
Payables:			
Brokers, dealers and clearing organizations		1,922	1,184
Customers		11,637	10,971
Accrued liabilities and other payables		8,735	4,668
Long-term debt:			
Senior notes		32,106	27,375
Subordinated indebtedness		3,127	3,316
Total liabilities		216,079	185,251
Commitments and contingencies			
Preferred securities subject to mandatory redemption		860	710
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock		700	688
Common stock, \$0.10 par value; 300,000,000 shares authorized;			
Shares issued: 251,629,126 in 2000 and 245,238,920 in 1999;			
Shares outstanding: 236,395,332 in 2000 and 239,825,620 in 1999		25	25
Additional paid-in capital		3,589	3,374
Accumulated other comprehensive income (net of tax)		(8)	(2)
Retained earnings		3,713	2,094
Other stockholders' equity, net		597	254
Common stock in treasury, at cost: 15,233,794 shares in 2000			
and 5,413,300 shares in 1999		(835)	(150)
Total stockholders' equity		7,781	6,283
Total liabilities and stockholders' equity		\$224,720	\$192,244

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Stockholders' Equity

(in millions)	Twelve months ended November 30		
	2000	1999	1998
<b>PREFERRED STOCK</b>			
5% Cumulative Convertible Voting, Series A:			
Beginning balance		\$ 1	\$ 1
Series A exchanged for Series B		(1)	
Ending balance			1
5% Cumulative Convertible Voting, Series B:			
Beginning balance	\$ 238	457	507
Series A exchanged for Series B		1	
Shares subject to redemption	(150)		
Shares repurchased	(88)	(220)	(50)
Ending balance		238	457
5.94% Cumulative, Series C:			
Beginning balance	250	250	
Shares issued			250
Ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning balance	200	200	
Shares issued			200
Ending balance	200	200	200
7.115% Cumulative, Series E:			
Beginning balance			
Shares issued	250		
Ending Balance	250		
Redeemable Voting:			
Beginning and ending balance	700	688	908
Total Preferred Stock, ending balance			
<b>COMMON STOCK<sup>(1)</sup></b>	25	25	25
Beginning balance	25	25	25
Ending balance			
<b>ADDITIONAL PAID-IN CAPITAL<sup>(1)</sup></b>	3,374	3,521	3,423
Beginning balance	(54)	(63)	
RSUs exchanged for Common Stock	101	9	37
Employee stock-based awards	(210)	(181)	
Shares issued to RSU Trust	373	90	59
Tax benefits from the issuance of stock-based awards	5	(2)	2
Other, net			
Ending balance	\$3,589	\$3,374	\$3,521

(1) Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Stockholders' Equity (continued)

(in millions)		Twelve months ended November 30		
		2000	1999	1998
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>				
Beginning balance				
Translation adjustment, net <sup>(2)</sup>	\$ (2)	\$ 15	\$ 12	
Ending balance	(6)	(17)	3	
<b>RETAINED EARNINGS</b>				
Beginning balance	(8)	(2)	15	
Net income	2,094	1,105	498	
Dividends declared:	1,775	1,132	736	
5% Cumulative Convertible Voting Series A and B Preferred Stock	(9)	(20)	(25)	
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(8)	
5.67% Cumulative, Series D Preferred Stock	(11)	(10)	(4)	
7.115% Cumulative, Series E Preferred Stock	(12)			
Redeemable Voting Preferred Stock	(50)	(50)	(50)	
Common Stock	(59)	(48)	(37)	
Other			(5)	
Ending balance	3,713	2,094	1,105	
<b>COMMON STOCK ISSUABLE</b>				
Beginning balance	1,768	1,318	911	
RSUs exchanged for Common Stock	(247)	(83)	(10)	
Deferred stock awards granted	1,003	533	417	
Ending balance	2,524	1,768	1,318	
<b>COMMON STOCK HELD IN RSU TRUST</b>				
Beginning balance	(717)	(422)	(325)	
Shares issued to RSU Trust	(231)	(441)	(107)	
RSUs exchanged for Common Stock	301	146	10	
Ending balance	(647)	(717)	(422)	
<b>DEFERRED STOCK COMPENSATION</b>				
Beginning balance	(797)	(627)	(431)	
Deferred stock awards granted	(1,003)	(533)	(417)	
Amortization of deferred compensation, net	520	363	221	
Ending balance	(1,280)	(797)	(627)	
<b>COMMON STOCK IN TREASURY, AT COST</b>				
Beginning balance	(150)	(430)	(98)	
Treasury stock purchased	(1,203)	(353)	(469)	
Employee stock-based awards	77	11	30	
Shares issued to RSU Trust	441	622	107	
Ending balance	(835)	(150)	(430)	
Total stockholders' equity	\$7,781	\$6,283	\$5,413	

(2) Net of income taxes of \$(8) in 2000, \$(11) in 1999, and \$2 in 1998.

See Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

(in millions)	Twelve months ended November 30		
	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income	\$ 1,775	\$ 1,132	\$ 736
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	102	88	91
Deferred tax provision (benefit)	(169)	(145)	(284)
Amortization of deferred stock compensation	520	363	221
Other adjustments	65	(129)	80
Net change in:			
Cash and securities segregated and on deposit	(445)	(806)	(34)
Securities and other financial instruments owned	(16,148)	(12,059)	(138)
Securities borrowed	1,779	(3,056)	(2,195)
Receivables from brokers, dealers and clearing organizations	12	624	(105)
Receivables from customers	1,747	(1,574)	1,347
Securities and other financial instruments sold but not yet purchased	(11,325)	17,807	(1,277)
Securities loaned	2,674	1,403	(4,681)
Payables to brokers, dealers and clearing organizations	738	(138)	(833)
Payables to customers	666	1,768	(2,499)
Accrued liabilities and other payables	4,041	377	(152)
Other operating assets and liabilities, net	(765)	686	(279)
Net cash provided by (used in) operating activities	(14,733)	6,341	(10,002)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of senior notes	14,225	9,753	11,091
Principal payments of senior notes	(8,353)	(6,037)	(4,298)
Proceeds from issuance of subordinated indebtedness		200	600
Principal payments of subordinated indebtedness	(192)	(370)	(356)
Net proceeds from (payments for) commercial paper and short-term debt	324	(1,181)	(1,161)
Resale agreements net of repurchase agreements	10,122	(6,488)	5,751
Payments for repurchases of preferred stock	(88)	(220)	(50)
Payments for treasury stock purchases	(1,203)	(353)	(469)
Dividends paid	(149)	(139)	(122)
Issuances of common stock	99	8	61
Issuance of preferred stock, net of issuance costs	250		444
Issuance of trust preferred securities, net of issuance costs		690	
Net cash provided by (used in) financing activities	15,035	(4,137)	11,491
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, equipment and leasehold improvements, net	(287)	(73)	(119)
Acquisition, net of cash acquired	(41)		
Net cash used in investing activities	(328)	(73)	(119)
Net change in cash and cash equivalents	(26)	2,131	1,370
Cash and cash equivalents, beginning of period	5,186	3,055	1,685
Cash and cash equivalents, end of period	\$ 5,160	\$ 5,186	\$ 3,055

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions)

Interest paid totaled \$18,500 in 2000, \$13,513 in 1999 and \$15,473 in 1998.

Income taxes paid totaled \$473 in 2000, \$103 in 1999 and \$541 in 1998.

See Notes to Consolidated Financial Statements.

On July 21, 1998, Holdings issued 4,000,000 Depository Shares, each representing 1/100th of a share of 5.67% Cumulative Preferred Stock, Series D ("Series D Preferred Stock"), \$1.00 par value. These shares have a redemption price of \$5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series D Preferred Stock beginning on August 31, 2008. The \$200 million redemption value of the shares outstanding at November 30, 2000 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

On March 28, 2000, Holdings issued 5,000,000 Depository Shares, each representing 1/100th of a share of Fixed/Adjustable Rate Cumulative Preferred Stock, Series E ("Series E Preferred Stock"), \$1.00 par value. The initial cumulative dividend rate on the Series E Preferred Stock is 7.115% per annum through May 31, 2005; thereafter the rate will be the higher of either the three-month U.S. Treasury Bill rate, the 10-year Treasury constant maturity rate or the 30-year U.S. Treasury constant maturity rate, in each case plus 1.15%, but in any event not less than 7.615% nor greater than 13.615%. These shares have a redemption price of \$5,000 per share, together with accrued and unpaid dividends. Holdings may redeem any or all of the outstanding shares of Series E Preferred Stock beginning on May 31, 2005. The \$250 million redemption value of the shares outstanding at November 30, 2000 is classified on the Company's Consolidated Statement of Financial Condition as a component of Preferred stock.

**REDEEMABLE VOTING** In 1994, Holdings issued the Redeemable Voting Preferred Stock to American Express and Nippon Life for \$1,000. The holders of the Redeemable Voting Preferred Stock are entitled to receive annual dividends through May 31, 2002 in an amount equal to 50% of the amount, if any, by which the Company's net income for the preceding year exceeds \$400 million, up to a maximum of \$50 million, prorated in the case of the last dividend period, which runs from December 1, 2001 to May 31, 2002. For the years ended November 30, 2000 and 1999, the Company's net income of \$1,775 million and \$1,132 million, respectively, resulted in the recognition of dividends in each year in the amount of \$50 million on the Redeemable Voting Preferred Stock.

Holdings may not redeem shares of the Redeemable Preferred Stock prior to the final dividend payment. However, in the event of a change of control of the Company, holders of the Redeemable Preferred Stock will have the right to require Holdings to redeem all of the stock for an aggregate redemption price equal to \$50 million if such change of control occurs prior to November 30, 2001. If a change of control is not approved by a majority of Holdings' Board of Directors, the funds for redemption must be raised by an offering of Holdings' equity securities which are not redeemable. The Redeemable Preferred Stock is not convertible into common stock.

## NOTE 6 / COMMON STOCK

On September 20, 2000, Lehman Brothers' Board of Directors declared a two-for-one common stock split, to be effected in the form of a 100% stock dividend, which became effective on October 20, 2000. The par value of the common stock remained at \$0.10 per share. Accordingly, a transfer from paid-in capital to common stock of \$12.5 million was made to preserve the par value of the post-split shares. All share and per share amounts have been restated for the effect of the split.

Changes in shares of Holdings' common stock (the "Common Stock") outstanding are as follows:

	2000	1999	November 30 1998
Shares outstanding, beginning of period	239,825,620	227,315,754	233,224,148
Exercise of stock options and other share issuances	10,015,048	1,925,642	6,259,766
Treasury stock purchases	(25,245,336)	(12,415,776)	(17,168,160)
Issuances of shares to the RSU Trust	11,800,000	23,000,000	5,000,000
Shares outstanding, end of period	236,395,332	239,825,620	227,315,754

The Company had reserved for issuance approximately 2.4 million shares of Common Stock for conversion of the Convertible Voting Preferred.

During the years ended November 30, 2000, 1999 and 1998, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately \$1,203 million, \$353 million and \$469 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options and related tax withholding obligations. These shares are being reserved for future issuances under employee stock-based compensation plans.

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2000, 1999 and 1998, 11.8 million, 23.0 million and 5.0 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2000, approximately 42.4 million shares were held in the RSU Trust with a total value of approximately \$647 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the establishment of the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

#### NOTE 7 / INCENTIVE PLANS

**EMPLOYEE STOCK PURCHASE PLAN** The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of \$25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2000 and 1999, 5.2 million shares and 4.8 million shares, respectively, of Common Stock had been purchased by eligible employees through the ESPP.

**REPLACEMENT PLAN** The 1994 Management Replacement Plan (the "Replacement Plan") provided awards similar to the American Express common shares granted to Company employees which were canceled as of the date of the spin-off from American Express. Through November 30, 2000, a total of 3.9 million awards had been granted under the Replacement Plan, including both stock options and restricted stock; 0.4 million were outstanding at November 30, 2000. No future awards will be granted under this plan.

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2000, RSU and stock option awards with respect to 31.3 million shares of Common Stock have been made under the 1994 Plan of which 2.9 million are outstanding and 28.4 million have been converted to freely transferable Common Stock. The Company will utilize the remaining authorization of 2.0 million shares to satisfy dividend reinvestment requirements for outstanding awards and to fund the annual RSU awards for the Company's non-employee directors.

**1996 MANAGEMENT OWNERSHIP PLAN** During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2000, RSU, PSU and stock option awards with respect to 29.7 million shares of Common Stock have been made under the 1996 Plan of which 21.5 million are outstanding and 8.2 million have been converted to freely transferable Common Stock.

**EMPLOYEE INCENTIVE PLAN** The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization for up to 156.0 million shares of Common Stock which may be subject to awards. At November 30, 2000, awards with respect to 125.9 million shares of Common Stock have been made under the EIP of which 112.5 million are outstanding and 13.4 million have been converted to freely transferable Common Stock. Approximately 72.5 million of the outstanding awards consist of RSUs and PSUs which have vesting and transfer restrictions extending through the year 2006.

then  
referred to pleading

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

RESTRICTED STOCK UNITS

	1994 Plan	1996 Plan	EIP	Total
Balance, November 30, 1997	23,796,350	2,385,758	31,977,174	58,159,282
Granted	167,732	1,222,800	22,800,302	24,190,834
Canceled	(85,468)	(224,954)	(806,598)	(1,117,020)
Exchanged for stock without restrictions	(487,582)	(211,128)	(180,634)	(879,344)
Balance, November 30, 1998	23,391,032	3,172,476	53,790,244	80,353,752
Granted	386,422	2,376,634	13,960,994	16,724,050
Canceled	(122,826)	(59,734)	(3,678,534)	(3,861,094)
Exchanged for stock without restrictions	(9,375,418)	(41,758)	(733,752)	(10,150,928)
Balance, November 30, 1999	14,279,210	5,447,618	63,338,952	83,065,780
Granted	56,503	2,730,011	19,434,315	22,220,829
Canceled	(180,445)	(490,009)	(2,746,069)	(3,416,523)
Exchanged for stock without restrictions	(11,760,416)		(7,487,129)	(19,247,545)
Balance, November 30, 2000	2,394,852	7,687,620	72,540,069	82,622,541

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

In the third quarter of 2000, the Company delivered 11.5 million shares of its Common Stock to current and former employees in satisfaction of RSUs awarded in 1995. Substantially all of the shares delivered were funded from the RSU Trust. The Company also received 3.6 million shares from current and former employees in satisfaction of applicable tax withholding requirements. Shares received were recorded as treasury stock at an aggregate value of \$168 million.

Of the RSUs outstanding at November 30, 2000, approximately 23.5 million RSUs were vested, approximately 14.0 million RSUs will vest during fiscal 2001, and the remaining RSUs will vest subsequent to November 30, 2001. At November 30, 2000, approximately 42.4 million shares of the Company's Common Stock were held in the RSU Trust.

In addition to the RSUs included in the previous table, the Company has awarded PSUs under the EIP to certain senior officers. The number of PSUs which may be earned is dependent upon the achievement of certain performance levels within predetermined performance periods. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs which then vest in three, four or five years. As of December 31, 2000, approximately 6.9 million PSUs have been earned to date, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Total compensation cost recognized during 2000, 1999 and 1998 for the Company's stock-based awards was approximately \$520 million, \$363 million and \$221 million, respectively.

The Company's 2000, 1999 and 1998 pro forma net income would have been \$1,725 million, \$1,091 million and \$723 million, respectively, compared to actual net income of \$1,775 million, \$1,132 million and \$736 million, respectively. Pro forma earnings per common share for 2000, 1999 and 1998 would have been \$6.32, \$3.99 and \$2.55, respectively, compared to actual earnings per common share of \$6.38, \$4.08 and \$2.60, respectively. The pro forma amounts reflect the effects of the Company's stock option grants and the 15% purchase discount from market value offered to the Company's employees who participate in the ESPP.

#### NOTE 8 / EARNINGS PER COMMON SHARE

Earnings per share was calculated as follows (in millions, except for per share data):

	Three Years Ended		
	2000	1999	1998
<b>NUMERATOR:</b>			
Net income	\$1,775	\$1,132	\$ 736
Preferred stock dividends	96	95	87
Numerator for basic earnings per share— income available to common stockholders	\$1,679	\$1,037	\$ 649
Convertible preferred stock dividends	8	17	
Numerator for diluted earnings per share— income available to common stockholders (adjusted for assumed conversion of preferred stock)	\$1,687	\$1,054	\$ 649
<b>DENOMINATOR:</b>			
Denominator for basic earnings per share— weighted-average shares	243.8	243.0	241.8
Effect of dilutive securities:			
Employee stock options	13.0	6.2	4.8
Restricted stock units	5.0	3.8	3.4
Preferred shares assumed converted into common	2.4	5.6	
Dilutive potential common shares	20.4	15.6	8.2
Denominator for diluted earnings per share— adjusted weighted-average shares	264.2	258.6	250.0
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 6.89</b>	<b>\$ 4.27</b>	<b>\$ 2.68</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 6.38</b>	<b>\$ 4.08</b>	<b>\$ 2.60</b>

Convertible Voting Preferred shares were convertible into common shares at a conversion price of approximately \$61.50 per share. However, for purposes of calculating dilutive earnings per share, preferred shares were assumed to be converted into common shares when basic earnings per share exceeds preferred dividends per share obtainable upon conversion (approximately \$3.08 on an annualized basis).

# Data

The following table summarizes certain consolidated financial information included in the audited consolidated financial statements.

	Twelve Months ended November 30				
(in millions, except per share, other data and financial ratios)	2000	1999	1998	1997	1996
<b>CONSOLIDATED STATEMENT OF INCOME</b>					
Revenues:					
Principal transactions	\$ 3,713	\$ 2,341	\$ 1,373	\$ 1,461	\$ 1,579
Investment banking	2,216	1,682	1,441	1,275	981
Commissions	944	651	513	423	362
Interest and dividends	19,440	14,251	16,542	13,635	11,298
Other	134	64	25	89	40
Total revenues	26,447	18,989	19,894	16,883	14,260
Interest expense	18,740	13,649	15,781	13,010	10,816
Net revenues	7,707	5,340	4,113	3,873	3,444
Non-interest expenses:					
Compensation and benefits	3,931	2,707	2,086	1,964	1,747
Other expenses	1,197	1,002	975	972	976
Severance and other charges					84
Total non-interest expenses	5,128	3,709	3,061	2,936	2,807
Income before taxes and dividends on trust preferred securities	2,579	1,631	1,052	937	637
Provision for income taxes	748	457	316	290	221
Dividends on trust preferred securities	56	42			
Net income	\$ 1,775	\$ 1,132	\$ 736	\$ 647	\$ 416
Net income applicable to common stock	\$ 1,679	\$ 1,037	\$ 649	\$ 572	\$ 378
<b>CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (AT PERIOD END)</b>					
Total assets	\$224,720	\$192,244	\$153,890	\$151,705	\$128,596
Total assets excluding matched book <sup>(a)</sup>	143,478	130,022	111,509	108,099	96,256
Long-term debt <sup>(b)</sup>	35,233	30,691	27,341	20,261	15,922
Preferred securities subject to mandatory redemption	860	710			
Total stockholders' equity	7,781	6,283	5,413	4,523	3,874
Total capital <sup>(c)</sup>	43,874	37,684	32,754	24,784	19,796
<b>PER SHARE DATA<sup>(d)</sup></b>					
Net income	\$ 6.38	\$ 4.08	\$ 2.60	\$ 2.36	\$ 1.62
Dividends declared per common share	\$ 0.22	\$ 0.18	\$ 0.15	\$ 0.12	\$ 0.10
Book value per common share (at period end)	\$ 28.78	\$ 22.75	\$ 18.53	\$ 16.70	\$ 14.42
<b>OTHER DATA (AT PERIOD END)</b>					
Ratio of total assets to total stockholders' equity and preferred securities	26.0x	27.5x	28.4x	33.5x	33.2x
Ratio of total assets excluding matched book to total stockholders' equity and preferred securities <sup>(a)</sup>	16.6x	18.6x	20.6x	23.9x	24.8x
Employees	11,326	8,893	8,873	8,340	7,556
<b>FINANCIAL RATIOS (%):</b>					
Compensation and benefits/net revenues	51.0	50.7	50.7	50.7	50.7
Pretax operating margin	33.5	30.5	25.6	24.2	18.5
Effective tax rate	29.0	28.0	30.0	30.9	35.4
Return on average common equity <sup>(e)</sup>	25.6	20.8	15.2	15.6	12.1

(a) Matched book represents "securities purchased under agreements to resell" ("reverse repos") to the extent that such balance is less than "securities sold under agreements to repurchase" ("repos") as of the statement of financial condition date. Several nationally recognized rating agencies consider such reverse repos to be a proxy for matched book assets when evaluating the Company's capital strength and financial ratios. Such agencies consider matched book assets to have a low risk profile and exclude such amounts in the calculation of leverage (total assets divided by total stockholders' equity and trust preferred securities). Although there are other assets with similar risk characteristics on the Company's Consolidated Statement of Financial Condition, the exclusion of reverse repos from total assets in this calculation reflects the fact that these assets are matched against liabilities of a similar nature, and therefore require minimal amounts of capital support. Accordingly, the Company believes the ratio of total assets excluding matched book to total stockholders' equity and trust preferred securities to be a more meaningful measure of the Company's leverage.

(b) Long-term debt includes senior notes and subordinated indebtedness.

(c) Total capital includes long-term debt, stockholders' equity and preferred securities subject to mandatory redemption.

(d) All share and per share data have been restated for the two-for-one common stock split effective October 20, 2000.

(e) After redeemable preferred dividend.

ML-1.2

## 2001 Annual Report

2001 was an extraordinary year, a year of tests around the globe: Investors faced turbulent

markets; businesses encountered many challenges; consumer confidence ebbed with the

economy. And in the United States, a moment of history shook—and then strengthened—our

collective resolve. At Lehman Brothers, we faced these tests and passed them. We confirmed

that our strategy works, in good times and bad. We remain strong, focused and determined to

be the best operator in the marketplace. Together with our clients, we continue to build visi

LEHMAN BRO

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders of  
Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States.

*Ernst + Young LLP*

New York, New York  
January 4, 2002

**CONSOLIDATED STATEMENT OF INCOME**

*In millions, except per share data  
Twelve months ended November 30*

	2001	2000	1999
<b>REVENUES</b>			
Principal transactions	\$ 2,779	\$ 3,713	\$ 2,341
Investment banking	2,000	2,216	1,682
Commissions	1,091	944	651
Interest and dividends	16,470	19,440	14,251
Other	52	134	64
Total revenues	22,392	26,447	18,989
Interest expense	15,656	18,740	13,649
Net revenues	6,736	7,707	5,340
<b>NON-INTEREST EXPENSES</b>			
Compensation and benefits	3,437	3,931	2,707
Technology and communications	501	341	327
Brokerage and clearance	308	264	232
Occupancy	198	135	116
Business development	183	182	122
Professional fees	152	184	115
Other	82	91	90
Special charge	127	-	-
Total non-interest expenses	4,988	5,128	3,709
Income before taxes and dividends on trust preferred securities	1,748	2,579	1,631
Provision for income taxes	437	748	457
Dividends on trust preferred securities	56	56	42
Net income	\$ 1,255	\$ 1,775	\$ 1,132
Net income applicable to common stock	\$ 1,161	\$ 1,679	\$ 1,037
Earnings per common share			
Basic	\$ 4.77	\$ 6.89	\$ 4.27
Diluted	\$ 4.38	\$ 6.38	\$ 4.08

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

<i>In millions</i> <i>November 30</i>	2001	2000
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,561	\$ 5,160
Cash and securities segregated and on deposit for regulatory and other purposes	3,289	2,434
Securities and other financial instruments owned:		
Mortgages and mortgage-backed	33,210	24,670
Governments and agencies	24,101	27,381
Derivatives and other contractual agreements	11,555	9,583
Corporate debt and other	10,918	16,098
Corporate equities	8,302	24,042
Certificates of deposit and other money market instruments	2,759	3,433
Subtotal	90,845	105,207
Securities owned pledged as collateral	28,517	-
	119,362	105,207
Collateralized short-term agreements:		
Securities purchased under agreements to resell	83,278	81,242
Securities borrowed	17,994	17,618
Receivables:		
Brokers, dealers and clearing organizations	3,455	1,662
Customers	12,123	7,585
Others	1,479	1,135
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$424 in 2001 and \$855 in 2000)	1,495	671
Other assets	2,613	1,826
Excess of cost over fair value of net assets acquired (net of accumulated amortization of \$151 in 2001 and \$138 in 2000)	167	180
<b>Total assets</b>	<b>\$247,816</b>	<b>\$224,720</b>

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION** *continued*

*In millions, except per share data  
November 30*

	2001	2000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Commercial paper and short-term debt	\$ 4,865	\$ 5,800
Securities and other financial instruments sold but not yet purchased:		
Governments and agencies	25,547	14,998
Derivatives and other contractual agreements	10,324	8,568
Corporate equities	8,977	6,623
Corporate debt and other	6,482	5,096
	51,330	35,285
Collateralized short-term financing:		
Securities sold under agreements to repurchase	105,079	110,225
Securities loaned	12,541	7,242
Payables:		
Brokers, dealers and clearing organizations	2,805	1,922
Customers	13,831	11,637
Accrued liabilities and other payables	9,895	8,735
Long-term debt:		
Senior notes	35,373	32,106
Subordinated indebtedness	2,928	3,127
Total liabilities	238,647	216,079
Commitments and contingencies		
Preferred securities subject to mandatory redemption	710	860
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	700	700
Common stock, \$0.10 par value;		
Shares authorized: 600,000,000 in 2001 and 300,000,000 in 2000;		
Shares issued: 256,178,907 in 2001 and 251,629,126 in 2000;		
Shares outstanding: 237,534,091 in 2001 and 236,395,332 in 2000	25	25
Additional paid-in capital	3,562	3,589
Accumulated other comprehensive income (net of tax)	(10)	(8)
Retained earnings	4,798	3,713
Other stockholders' equity, net	746	597
Common stock in treasury, at cost: 18,644,816 shares in 2001 and 15,233,794 shares in 2000	(1,362)	(835)
Total stockholders' equity	8,459	7,781
Total liabilities and stockholders' equity	\$247,816	\$224,720

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

In millions

Twelve months ended November 30

	2001	2000	1999
<b>PREFERRED STOCK</b>			
5% Cumulative Convertible Voting, Series A:			
Beginning balance			\$ 1
Series A exchanged for Series B			(1)
Ending balance			
5% Cumulative Convertible Voting, Series B:			
Beginning balance		\$ 238	457
Series A exchanged for Series B			1
Shares subject to redemption		(150)	
Shares repurchased		(88)	(220)
Ending balance			238
5.94% Cumulative, Series C:			
Beginning balance	\$ 250	250	250
Shares issued			
Ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning balance	200	200	200
Shares issued			
Ending balance	200	200	200
7.115% Cumulative, Series E:			
Beginning balance	250		
Shares issued		250	
Ending balance	250	250	
Redeemable Voting:			
Beginning and ending balance			
Total Preferred Stock, ending balance	700	700	688
<b>COMMON STOCK<sup>(1)</sup></b>	25	25	25
<b>ADDITIONAL PAID-IN CAPITAL<sup>(1)</sup></b>			
Beginning balance	3,589	3,374	3,521
RSUs exchanged for Common Stock	(13)	(54)	(63)
Employee stock-based awards	53	101	9
Shares issued to RSU Trust	(628)	(210)	(181)
Tax benefits from the issuance of stock-based awards	549	373	90
Other, net	12	5	(2)
Ending balance	\$3,562	\$3,589	\$3,374

(1) Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend, which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY** *continued*

*In millions*

*Twelve months ended November 30*

	2001	2000	1999
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Beginning balance	\$ (8)	\$ (2)	\$ 15
Translation adjustment, net <sup>(2)</sup>	(2)	(6)	(17)
Ending balance	(10)	(8)	(2)
<b>RETAINED EARNINGS</b>			
Beginning balance	3,713	2,094	1,105
Net income	1,255	1,775	1,132
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	(1)	(9)	(20)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(10)
7.115% Cumulative, Series E Preferred Stock	(18)	(12)	—
Redeemable Voting Preferred Stock	(50)	(50)	(50)
Common Stock	(75)	(59)	(48)
Ending balance	4,798	3,713	2,094
<b>COMMON STOCK ISSUABLE</b>			
Beginning balance	2,524	1,768	1,318
RSUs exchanged for Common Stock	(215)	(247)	(83)
Deferred stock awards granted	624	1,003	533
Ending balance	2,933	2,524	1,768
<b>COMMON STOCK HELD IN RSU TRUST</b>			
Beginning balance	(647)	(717)	(422)
Shares issued to RSU Trust	(403)	(231)	(441)
RSUs exchanged for Common Stock	223	301	146
Ending balance	(827)	(647)	(717)
<b>DEFERRED STOCK COMPENSATION</b>			
Beginning balance	(1,280)	(797)	(627)
Deferred stock awards granted	(624)	(1,003)	(533)
Amortization of deferred compensation, net	544	520	363
Ending balance	(1,360)	(1,280)	(797)
<b>COMMON STOCK IN TREASURY, AT COST</b>			
Beginning balance	(835)	(150)	(430)
Treasury stock purchased	(1,676)	(1,203)	(353)
RSUs exchanged for Common Stock	5	—	—
Shares issued for preferred stock conversion	44	—	—
Employee stock-based awards	69	77	11
Shares issued to RSU Trust	1,031	441	622
Ending balance	(1,362)	(835)	(150)
Total stockholders' equity	\$ 8,459	\$ 7,781	\$ 6,283

(2) Net of income taxes of \$(1) in 2001, \$(8) in 2000 and \$(11) in 1999.

See Notes to Consolidated Financial Statements.

## 7 Common Stock

In 2000, Lehman Brothers' Board of Directors declared a two-for-one common split, effected in the form of a 100% stock dividend. All share and per share data presented in this Annual Report to Stockholders reflect the effect of the split.

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate

of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

Changes in shares of Holdings' common stock outstanding are as follows:

Common Stock			
November 30	2001	2000	1999
Shares outstanding, beginning of period	236,395,332	239,825,620	227,315,754
Exercise of stock options and other share issuances	8,369,721	10,015,048	1,925,642
Treasury stock purchases	(23,230,962)	(25,245,336)	(12,415,776)
Issuances of shares to the RSU Trust	16,000,000	11,800,000	23,000,000
Shares outstanding, end of period	237,534,091	236,395,332	239,825,620

During the years ended November 30, 2001, 2000 and 1999, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately \$1,676 million, \$1,203 million and \$353 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options and related tax withholding obligations. These shares are being reserved for future issuances under employee stock-based compensation plans.

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for

restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2001, 2000 and 1999, 16.0 million, 11.8 million and 23.0 million Treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2001, approximately 45.7 million shares were held in the RSU Trust with a total value of approximately \$827 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the establishment of the RSU Trust has had no effect on the total equity, net income or earnings per share of the Company.

2001

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 8 Incentive Plans

**EMPLOYEE STOCK PURCHASE PLAN** The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of \$25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2001 and 2000, 5.5 million shares and 5.2 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

**1994 INCENTIVE PLANS** The 1994 Management Replacement Plan (the "Replacement Plan") provided awards similar to the American Express common shares granted to Company employees which were canceled as of the date of the spin-off from American Express. Through November 30, 2001, a total of 3.9 million awards had been granted under the Replacement Plan, including both stock options and restricted stock; 0.1 million shares were outstanding at November 30, 2001. No future awards will be granted under this plan.

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2001, RSU, PSU and stock option awards with respect to 31.1 million shares of Common

Stock have been made under the 1994 Plan of which 1.5 million are outstanding and 29.6 million have been converted to freely transferable Common Stock. The Company will utilize the remaining authorization of 2.2 million shares to satisfy dividend reinvestment requirements for outstanding awards and to fund the annual RSU awards for the Company's non-employee directors.

**1996 MANAGEMENT OWNERSHIP PLAN** During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2001, RSU, PSU and stock option awards with respect to 31.4 million shares of Common Stock have been made under the 1996 Plan of which 18.9 million are outstanding and 12.5 million have been converted to freely transferable Common Stock.

**EMPLOYEE INCENTIVE PLAN** The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 196.0 million shares of Common Stock which may be subject to awards. At November 30, 2001, awards with respect to 157.8 million shares of Common Stock have been made under the EIP of which 124.3 million are outstanding and 33.5 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

<b>Restricted Stock Units</b>				
	1994 Plan	1996 Plan	EIP	Total
<b>BALANCE, NOVEMBER 30, 1998</b>	23,391,032	3,172,476	53,790,244	80,353,752
Granted	386,422	2,376,634	13,960,994	16,724,050
Canceled	(122,826)	(59,734)	(3,678,534)	(3,861,094)
Exchanged for stock without restrictions	(9,375,418)	(41,758)	(733,752)	(10,150,928)
<b>BALANCE, NOVEMBER 30, 1999</b>	14,279,210	5,447,618	63,338,952	83,065,780
Granted	56,503	2,730,011	19,434,315	22,220,829
Canceled	(180,445)	(490,009)	(2,746,069)	(3,416,523)
Exchanged for stock without restrictions	(11,760,416)		(7,487,129)	(19,247,545)
<b>BALANCE, NOVEMBER 30, 2000</b>	2,394,852	7,687,620	72,540,069	82,622,541
Granted	6,455	73,093	15,212,899	15,292,447
Canceled	(1,049,608)	(898,037)	(1,321,180)	(3,268,825)
Exchanged for stock without restrictions	(388,967)	(662,854)	(17,137,271)	(18,189,092)
<b>BALANCE, NOVEMBER 30, 2001</b>	962,732	6,199,822	69,294,517	76,457,071

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

In 2001, the Company delivered 11.8 million shares of its Common Stock to current and former employees in satisfaction of RSUs awarded in 1996. Substantially all of the shares delivered were funded from the RSU Trust. The Company also received 3.4 million shares from current and former employees in satisfaction of applicable tax withholding requirements. Shares received were recorded as Treasury stock at an aggregate value of \$257 million.

Of the RSUs outstanding at November 30, 2001, approximately 21.9 million RSUs were vested, approximately 14.7 million

RSUs will vest during fiscal 2002, and the remaining RSUs will vest subsequent to November 30, 2002.

Included in the previous table are PSUs the Company has awarded to certain senior officers. The number of PSUs which may be earned is dependent upon the achievement of certain performance levels within predetermined performance periods. During the performance period these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs which then vest in three, four or five years. As of November 30, 2001, approximately 9.1 million PSUs have been awarded to date, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Total compensation cost recognized during 2001, 2000 and 1999 for the Company's stock-based awards was approximately \$544 million, \$520 million and \$363 million, respectively.

At November 30, 2001 and 2000, approximately 14.8 million and 18.0 million stock options, respectively, were exercisable at weighted-average prices of \$25.04 and \$22.49, respectively.

# LEHMAN BROTHERS

ANNUAL  
REPORT  
2002



ML-13

Report of  
Independent Auditors

**The Board of Directors and Stockholders of  
Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2002 and 2001, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2002, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

New York, New York  
January 10, 2003

# Consolidated Statement of Income

*In millions, except per share data  
Twelve months ended November 30*

	2002	2001	2000
<b>Revenues</b>			
Principal transactions	\$ 1,951	\$ 2,779	\$ 3,713
Investment banking	1,771	2,000	2,216
Commissions	1,286	1,091	944
Interest and dividends	11,728	16,470	19,440
Other	45	52	134
Total revenues	16,781	22,392	26,447
Interest expense	10,626	15,656	18,740
Net revenues	6,155	6,736	7,707
<b>Non-Interest Expenses</b>			
Compensation and benefits	3,139	3,437	3,931
Technology and communications	552	501	341
Brokerage and clearance	329	308	264
Occupancy	287	198	135
Business development	146	183	182
Professional fees	129	152	184
Other	74	82	91
September 11th related (recoveries)/expenses, net	(108)	127	-
Other real estate reconfiguration charge	128	-	-
Regulatory settlement	80	-	-
Total non-interest expenses	4,756	4,988	5,128
Income before taxes and dividends on trust preferred securities	1,399	1,748	2,579
Provision for income taxes	368	437	748
Dividends on trust preferred securities	56	56	56
Net income	\$ 975	\$ 1,255	\$ 1,775
Net income applicable to common stock	\$ 906	\$ 1,161	\$ 1,679
Earnings per common share			
Basic	\$ 3.69	\$ 4.77	\$ 6.89
Diluted	\$ 3.47	\$ 4.38	\$ 6.38

See Notes to Consolidated Financial Statements.

2002 Consolidated Financial Statements

Consolidated Statement  
of Financial Condition

<i>In millions November 30</i>	<i>2002</i>	<i>2001</i>
<b>Assets</b>		
Cash and cash-equivalents	\$ 3,699	\$ 2,561
Cash and securities segregated and on deposit for regulatory and other purposes	2,803	3,289
Securities and other financial instruments owned: (includes \$22,211 in 2002 and \$28,517 in 2001 pledged as collateral)	119,278	119,362
Collateralized short-term agreements:		
Securities purchased under agreements to resell	94,341	83,278
Securities borrowed	20,497	17,994
Receivables:		
Brokers, dealers and clearing organizations	3,775	3,455
Customers	8,279	12,123
Others	1,910	1,479
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$590 in 2002 and \$424 in 2001)	2,075	1,485
Other assets	3,466	2,613
Excess of cost over fair value of net assets acquired (net of accumulated amortization of \$155 in 2002 and \$151 in 2001)	213	167
<b>Total assets</b>	<b>\$ 260,336</b>	<b>\$ 247,816</b>

See Notes to Consolidated Financial Statements.

2002 Consolidated Financial Statements

Consolidated Statement  
of Financial Condition *continued*

*In millions, except per share data  
November 30*

	2002	2001
<b>Liabilities and Stockholders' Equity</b>		
Commercial paper and short-term debt	\$ 2,369	\$ 3,992
Securities and other financial instruments sold but not yet purchased	69,034	51,330
Collateralized short-term financing:		
Securities sold under agreements to repurchase	94,725	102,104
Securities loaned	8,137	12,541
Other secured borrowings	11,844	7,784
Payables:		
Brokers, dealers and clearing organizations	1,787	2,805
Customers	17,477	13,831
Accrued liabilities and other payables	6,633	5,959
Long-term debt:		
Senior notes	36,283	35,373
Subordinated indebtedness	2,395	2,928
<b>Total liabilities</b>	<b>250,684</b>	<b>238,647</b>
Commitments and contingencies		
Preferred securities subject to mandatory redemption	710	710
<b>Stockholders' Equity</b>		
Preferred stock	700	700
Common stock, \$0.10 par value;		
Shares authorized: 600,000,000 in 2002 and 2001;		
Shares issued: 258,791,416 in 2002 and 256,178,907 in 2001;		
Shares outstanding: 231,131,043 in 2002 and 237,534,091 in 2001	25	25
Additional paid-in capital	3,628	3,562
Accumulated other comprehensive income (net of tax)	(13)	(10)
Retained earnings	5,608	4,798
Other stockholders' equity, net	949	746
Common stock in treasury, at cost: 27,660,373 shares in 2002 and 18,644,816 shares in 2001	(1,955)	(1,362)
<b>Total stockholders' equity</b>	<b>8,942</b>	<b>8,459</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 260,336</b>	<b>\$ 247,816</b>

See Notes to Consolidated Financial Statements.

2002 Conso. Financial Statements

## Consolidated Statement of Changes in Stockholders' Equity

*In millions*  
*Twelve months ended November 30*

	2002	2001	2000
<b>Preferred Stock</b>			
5% Cumulative Convertible Voting, Series A and B:			
Beginning balance	\$ -	\$ -	\$ 238
Shares subject to redemption	-	-	(150)
Shares repurchased	-	-	(88)
Ending balance	-	-	-
5.94% Cumulative, Series C:			
Beginning and ending balance	250	250	250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	250	250	-
Shares issued	-	-	250
Ending balance	250	250	250
Redeemable Voting:			
Beginning and ending balance	-	-	-
Total Preferred Stock, ending balance	700	700	700
<b>Common Stock<sup>(1)</sup></b>	25	25	25
<b>Additional Paid-In Capital<sup>(1)</sup></b>			
Beginning balance	3,562	3,589	3,374
RSUs exchanged for Common Stock	63	(13)	54
Employee stock-based awards	53	53	50
Shares issued to RSU Trust	(401)	(628)	215
Tax benefits from the issuance of stock-based awards	347	549	303
Other, net	4	12	5
Ending balance	\$ 3,628	\$ 3,562	\$ 3,991

<sup>(1)</sup> Amounts have been retroactively adjusted to give effect for the two-for-one common stock split, effected in the form of a 100% stock dividend which became effective on October 20, 2000.

See Notes to Consolidated Financial Statements.

Consolidated Statement  
of Changes in Stockholders' Equity *continued*

<i>In millions</i> <i>Twelve months ended November 30</i>			
	2002	2001	2000
<b>Accumulated Other Comprehensive Income</b>			
Beginning balance	\$ (10)	\$ (8)	\$ (2)
Translation adjustment, net <sup>(2)</sup>	(3)	(2)	(6)
Ending balance	(13)	(10)	(8)
<b>Retained Earnings</b>			
Beginning balance	4,798	3,713	2,094
Net income	975	1,255	1,775
Dividends declared:			
5% Cumulative Convertible Voting Series A and B Preferred Stock	—	(1)	(9)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(18)	(18)	(12)
Redeemable Voting Preferred Stock	(25)	(50)	(50)
Common Stock	(96)	(75)	(59)
Ending balance	5,608	4,798	3,713
<b>Common Stock Issuable</b>			
Beginning balance	2,933	2,524	1,768
RSUs exchanged for Common Stock	(463)	(215)	(247)
Deferred stock awards granted	407	624	1,003
Other, net	(55)	—	—
Ending balance	2,822	2,933	2,524
<b>Common Stock Held in RSU Trust</b>			
Beginning balance	(827)	(647)	(717)
Shares issued to RSU Trust	(297)	(403)	(231)
RSUs exchanged for Common Stock	387	223	301
Other, net	(17)	—	—
Ending balance	(754)	(827)	(647)
<b>Deferred Stock Compensation</b>			
Beginning balance	(1,360)	(1,280)	(797)
Deferred stock awards granted	(407)	(624)	(1,003)
Amortization of deferred compensation, net	570	544	520
Other, net	78	—	—
Ending balance	(1,119)	(1,360)	(1,280)
<b>Common Stock In Treasury, at Cost</b>			
Beginning balance	(1,362)	(835)	(150)
Treasury stock purchased	(1,510)	(1,676)	(1,203)
RSUs exchanged for Common Stock	—	5	—
Shares issued for preferred stock conversion	—	44	—
Employee stock-based awards	219	69	77
Shares issued to RSU Trust	698	1,031	441
Ending balance	(1,955)	(1,362)	(835)
Total stockholders' equity	\$ 8,942	\$ 8,459	\$ 7,781

<sup>(2)</sup> Net of income taxes of \$(1) in 2002, \$(1) in 2001 and \$(8) in 2000.

See Notes to Consolidated Financial Statements.

2002 Consolidated Financial Statements

## Consolidated Statement of Cash Flows

In millions

Twelve months ended November 30

	2002	2001	2000
<b>Cash Flows From Operating Activities</b>			
Net Income	\$ 975	\$ 1,255	\$ 1,775
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	258	174	102
Deferred tax provision (benefit)	(670)	(643)	(169)
Tax benefit from issuance of stock-based awards	347	549	373
Amortization of deferred stock compensation	570	544	520
September 11th (recoveries) expenses	(108)	356	-
Other real estate reconfiguration charge	128	-	-
Regulatory settlement	80	-	-
Other adjustments	92	(1)	65
Net change in:			
Cash and securities segregated and on deposit	486	(855)	(445)
Securities and other financial instruments owned	1,708	(13,219)	(16,148)
Securities borrowed	(2,503)	(376)	1,779
Other secured financing	4,060	3,805	3,979
Receivables from brokers, dealers and clearing organizations	(320)	(1,793)	12
Receivables from customers	3,844	(4,538)	1,747
Securities and other financial instruments sold but not yet purchased	17,704	16,045	(11,325)
Securities loaned	(4,404)	5,299	2,674
Payables to brokers, dealers and clearing organizations	(1,018)	883	738
Payables to customers	3,646	2,194	666
Accrued liabilities and other payables	277	(27)	1,262
Other operating assets and liabilities, net	(693)	(325)	(1,136)
Net cash provided by (used in) operating activities	24,459	9,327	(13,531)
<b>Cash Flows From Financing Activities</b>			
Proceeds from issuance of senior notes	8,415	9,915	14,225
Principal payments of senior notes	(9,014)	(7,646)	(8,353)
Principal payments of subordinated indebtedness	(715)	(204)	(192)
Net proceeds from (payments for) commercial paper and short-term debt	(1,623)	(1,808)	324
Resale agreements net of repurchase agreements	(18,442)	(8,957)	8,922
Payments for repurchases of preferred stock	-	(100)	(88)
Payments for treasury stock purchases, net	(1,303)	(1,676)	(1,203)
Dividends paid	(165)	(163)	(149)
Issuances of common stock	61	54	99
Issuance of preferred stock, net of issuance costs	-	-	250
Net cash provided by (used in) financing activities	(22,786)	(10,585)	13,835
<b>Cash Flows From Investing Activities</b>			
Purchases of property, equipment and leasehold improvements, net	(656)	(1,341)	(289)
Proceeds from the sale of 3 World Financial Center, net	152	-	-
Acquisition, net of cash acquired	(31)	-	(41)
Net cash used in investing activities	(535)	(1,341)	(330)
Net change in cash and cash equivalents	1,138	(2,599)	(26)
Cash and cash equivalents, beginning of period	2,561	5,160	5,186
Cash and cash equivalents, end of period	\$ 3,699	\$ 2,561	\$ 5,160

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions):**

Interest paid totaled \$10,686 in 2002, \$15,588 in 2001 and \$18,500 in 2000.

Income taxes paid totaled \$436 in 2002, \$654 in 2001 and \$473 in 2000.

See Notes to Consolidated Financial Statements.

2002 Notes to Consolidated Statements

Note 9  
Common  
Stock

In October 2000, Lehman Brothers' Board of Directors declared a two-for-one common stock split, effected in the form of a 100% stock dividend. All share and per share data presented in this Annual

Report to Stockholders reflect the effect of the split.

In April 2001, the Company's shareholders approved the adoption of an amendment of the Company's Restated Certificate of Incorporation to increase the aggregate number of authorized shares of common stock from 300 million to 600 million.

During the years ended November 30, 2002, 2001 and 2000, the Company repurchased or acquired shares of its Common Stock at an aggregate cost of approximately \$1,510 million, \$1,676 million and \$1,203 million, respectively. These shares were acquired in the open market and from employees who had tendered mature shares to pay for the exercise cost of stock options or for tax withholding obligations on RSU issuance or option exercises.

Changes in shares of Holdings' common stock outstanding are as follows:

<b>Common Stock</b>				
<i>November 30</i>				
	2002	2001	2000	
Shares outstanding, beginning of period	237,534,091	236,395,332	239,825,620	
Exercise of stock options and other share issuances	10,455,954	8,369,721	10,015,048	
Treasury stock purchases	(26,159,002)	(23,230,962)	(25,245,336)	
Issuances of shares to the RSU Trust	9,300,000	16,000,000	11,800,968	
Shares outstanding, end of period	231,131,043	237,534,091	236,395,332	

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") in order to provide common stock voting rights to employees who hold outstanding restricted stock units and to encourage employees to think and act like owners. The RSU Trust was initially funded in 1997 with a total of 32.0 million shares consisting of 10.0 million treasury shares for restricted stock unit ("RSU") awards under the Employee Incentive Plan and 22.0 million new issue shares of Common Stock for RSU awards under the 1994 Management Ownership Plan. In 2002, 2001 and 2000, 9.3 million, 16.0 million and 11.8 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2002, approximately 36.6 million shares were held in the RSU Trust with a total value of approximately \$754 million. For accounting purposes, these shares are valued at weighted-average grant prices.

Shares transferred to the RSU Trust do not impact the total number of shares used in the computation of earnings per common share because the Company considers the RSUs as common stock equivalents for purposes of this computation. Accordingly, the RSU Trust has had no effect on the total equity net income or earnings per share of the Company.

Note 10  
Incentive  
Plans

**EMPLOYEE STOCK PURCHASE PLAN**

The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of \$25,000 in annual

aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. As of November 30, 2002 and 2001, 5.8 million shares and 5.5 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

**1994 MANAGEMENT OWNERSHIP PLAN**

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of restricted stock units ("RSUs"), performance stock units ("PSUs"), stock options and other equity awards for a period up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2002, RSU, PSU and stock option awards with respect to 31.2 million shares of Common Stock have been made under the 1994 Plan of which 1.5 million are outstanding and 29.7 million have been converted to freely transferable Common Stock.

#### 1996 MANAGEMENT OWNERSHIP PLAN

During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2002, RSU, PSU and stock option awards with respect to 34.8 million shares of Common Stock have been made under the 1996 Plan of which 19.2 million are outstanding and 15.6 million have been converted to freely transferable Common Stock.

#### EMPLOYEE INCENTIVE PLAN

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 246.0 million shares of Common Stock which may be subject to awards. At November 30, 2002, awards with respect to 186.7 million shares of Common Stock have been made under the EIP of which 132.2 million are outstanding and 54.5 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

<b>Restricted Stock Units</b>		<i>Total</i>
<b>Balance, November 30, 1999</b>		83,065,780
Granted	22,220,829	
Canceled	(3,416,523)	
Exchanged for stock without restrictions	(19,247,545)	
<b>Balance, November 30, 2000</b>		82,622,541
Granted	15,292,447	
Canceled	(3,268,825)	
Exchanged for stock without restrictions	(18,189,092)	
<b>Balance, November 30, 2001</b>		76,457,071
Granted	9,178,667	
Canceled	(1,750,479)	
Exchanged for stock without restrictions	(14,547,191)	
<b>Balance, November 30, 2002</b>		69,338,068

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years

from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

The Company has repurchased approximately 47 million shares to offset the future delivery requirements associated with the above RSUs. These shares have either been transferred to the RSU trust (see Note 9 Common Stock) or are held as Treasury stock.

In 2002, the Company delivered 10.9 million shares of its Common Stock to current and former employees in satisfaction of RSUs awarded in 1997. Substantially all of the shares delivered were funded from the RSU Trust. The Company also received 3.4 million shares from current and former employees in satisfaction of applicable tax withholding requirements. Shares received were recorded as Treasury stock at an aggregate value of \$207 million.

Of the RSUs outstanding at November 30, 2002, approximately 46.7 million RSUs were amortized, approximately 9.4 million RSUs will be amortized during fiscal 2003, and the remaining RSUs will be amortized subsequent to November 30, 2003.

Included in the previous table are PSUs the Company has awarded to certain senior officers. The number of PSUs which may be earned is dependent upon the achievement of certain performance levels within predetermined performance periods. During the performance period these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs which then vest in three or more years. As of November 30, 2002, approximately 10.4 million PSUs have been awarded to date, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

Total compensation cost recognized during 2002, 2001 and 2000 for the Company's stock-based awards was approximately \$570 million, \$544 million and \$520 million, respectively.

At November 30, 2002 and 2001, approximately 13.0 million and 14.8 million stock options, respectively, were exercisable at weighted-average prices of \$29.95 and \$25.04, respectively. The weighted-average remaining contractual life of the stock options outstanding at November 30, 2002 is 6.52 years. The exercise price for all stock options awarded has been equal to the market price of Common Stock on the day of grant.

Stock Options			
	Total	Weighted-Average Exercise Price	Expiration Dates
<b>Balance, November 30, 1999</b>	44,278,756	\$ 22.15	6/00-11/09
Granted	25,107,075	\$ 34.89	
Exercised	(9,476,558)	\$ 17.04	
Canceled	(5,341,634)	\$ 24.89	
<b>Balance, November 30, 2000</b>	54,567,639	\$ 28.62	2/01-11/10
Granted	21,529,844	\$ 53.28	
Exercised	(6,261,030)	\$ 16.49	
Canceled	(1,442,239)	\$ 27.01	
<b>Balance, November 30, 2001</b>	68,394,214	\$ 37.53	1/02-11/11
Granted	26,211,500	\$ 54.94	
Exercised	(9,652,041)	\$ 25.02	
Canceled	(1,413,181)	\$ 43.20	
<b>Balance, November 30, 2002</b>	83,540,492	\$ 44.21	11/03-11/12

The disclosure requirements of SFAS 123 require companies which elect not to record the fair value of stock-based compensation awards in the Consolidated Statement of Income to provide pro forma disclosures of net income and earnings per share in the Notes to the Consolidated Financial Statements as if the fair value of stock-based compensation had been recorded. The Company utilized the Black-Scholes option-pricing model to quantify the pro forma effects on net income and earnings per common share of the fair value of the stock options granted and outstanding during 2002, 2001 and 2000. Based on the results of the model, the weighted-average fair value of the stock options granted was \$19.07, \$13.54 and \$9.91 for 2002, 2001 and 2000, respectively. The weighted-average assumptions which were used for 2002, 2001 and 2000 included risk-free interest rates of 3.26%, 4.16% and 6.27%, an expected life of 5.3 years, 4.5 years and 3.6 years, and expected volatility of 35%, 30% and 35%, respectively. In addition, annual dividends of \$0.36, \$0.28 and \$0.22 were used for the 2002, 2001 and 2000 options, respectively.

Under the retroactive alternative to SFAS 123, the Company's 2002, 2001 and 2000 pro forma net income would have been \$830 million, \$1,183 million and \$1,725 million, respectively, compared to actual net income of \$975 million, \$1,255 million and \$1,775 million, respectively. Pro forma earnings per common share for 2002, 2001 and 2000 would have been \$2.95, \$4.20 and \$6.32, respectively, compared to actual earnings per common share of \$3.47, \$4.38 and \$6.38, respectively. The pro forma amounts reflect the effects of the Company's stock option grants and the 15% purchase discount from market value offered to the Company's employees who participate in the ESPP.

Had the Company elected to expense its stock options in fiscal 2002 under the prospective alternative to SFAS 123, net income and earnings per share would have decreased by \$81 million and \$0.31 per share, respectively.

The following table provides further details relating to Holdings' stock options outstanding as of November 30, 2002:

Stock Options						
Range of Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)	Number Exercisable	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (in years)
\$ 9.00-\$ 9.99	357,880	\$ 9.00	1.49	357,880	\$ 9.00	1.49
\$10.00-\$19.99	27,308	\$ 19.88	2.00	27,308	\$ 19.88	2.00
\$20.00-\$29.99	15,685,323	\$ 22.96	3.26	4,955,278	\$ 21.61	2.27
\$30.00-\$39.99	15,644,540	\$ 33.67	3.68	6,733,809	\$ 33.84	3.27
\$40.00-\$49.99	13,572,883	\$ 47.87	8.01	588,904	\$ 48.25	4.43
\$50.00-\$59.99	28,233,102	\$ 53.76	8.82	28,867	\$ 57.23	6.19
\$60.00-\$69.99	10,019,456	\$ 63.40	7.75	339,247	\$ 63.40	4.98
<b>Balance, November 30, 2002</b>	<b>83,540,492</b>	<b>\$ 44.21</b>	<b>6.52</b>	<b>13,031,293</b>	<b>\$ 29.95</b>	<b>2.94</b>

ML-14

*2003 Annual Report*

The Art of Client Service

LEHMAN BROTHERS

REPORT OF INDEPENDENT AUDITORS

**The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2003 and 2002, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2003 and 2002, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2003, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

New York, New York  
January 29, 2004

CONSOLIDATED STATEMENT OF  
FINANCIAL CONDITION

IN MILLIONS  
NOVEMBER 30

ASSETS

	2003	2002
Cash and cash equivalents	\$ 7,922	\$ 3,699
Cash and securities segregated and on deposit for regulatory and other purposes	3,100	2,800
Securities and other inventory positions owned: (includes \$35,679 in 2003 and \$22,211 in 2002 pledged as collateral)	137,040	119,270
Collateralized agreements:		
Securities purchased under agreements to resell	87,416	94,340
Securities borrowed	51,396	20,490
Receivables:		
Brokers, dealers and clearing organizations	4,875	3,770
Customers	8,809	8,270
Others	1,626	1,910
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$921 in 2003 and \$590 in 2002)	2,806	2,070
Other assets	3,510	3,460
Identifiable intangible assets and goodwill (net of accumulated amortization of \$166 in 2003 and \$155 in 2002)	3,561	21,000
Total assets	\$312,061	\$260,330

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF  
FINANCIAL CONDITION

(continued)

IN MILLIONS, EXCEPT PER SHARE DATA  
NOVEMBER 30

	2003	2002
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Commercial paper and short-term debt	\$ 2,331	\$ 2,369
Securities and other inventory positions sold but not yet purchased	75,882	69,034
Collateralized financing:		
Securities sold under agreements to repurchase	107,304	94,725
Securities loaned	13,988	8,137
Other secured borrowings	14,544	11,844
Payables:		
Brokers, dealers and clearing organizations	3,067	1,787
Customers	27,666	17,477
Accrued liabilities and other payables	9,266	6,633
Long-term debt:		
Senior notes	41,303	36,283
Subordinated indebtedness	2,226	2,395
Total liabilities	297,577	250,684
Commitments and contingencies		
Preferred securities subject to mandatory redemption	1,310	710
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	1,045	700
Common stock, \$0.10 par value;		
Shares authorized: 600,000,000 in 2003 and 2002;		
Shares issued: 294,575,285 in 2003 and 258,791,416 in 2002;		
Shares outstanding: 266,679,056 in 2003 and 231,131,043 in 2002	29	25
Additional paid-in capital	6,164	3,628
Accumulated other comprehensive income (net of tax)	(16)	(13)
Retained earnings	7,129	5,608
Other stockholders' equity, net	1,031	949
Common stock in treasury, at cost: 27,896,229 shares in 2003 and 27,660,373 shares in 2002	(2,208)	(1,955)
Total stockholders' equity	13,174	8,942
Total liabilities and stockholders' equity	\$312,061	\$260,336

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES  
IN STOCKHOLDERS' EQUITY

IN MILLIONS  
YEAR ENDED NOVEMBER 30

**PREFERRED STOCK**

5.94% Cumulative, Series C:

Beginning and ending balance

\$ 250

\$ 250

\$ 250

5.67% Cumulative, Series D:

Beginning and ending balance

200

200

200

7.115% Fixed/Adjustable Rate Cumulative, Series E:

Beginning and ending balance

250

250

250

6.50% Cumulative, Series F:

Beginning balance

—

—

—

Shares issued

345

—

—

Ending balance

345

—

—

Redeemable Voting:

Beginning and ending balance

—

—

—

Total Preferred Stock, ending balance

1,045

700

700

**COMMON STOCK, PAR VALUE \$0.10 PER SHARE**

Beginning balance

25

25

25

Shares issued in connection with Neuberger acquisition

3

—

—

Issued

1

—

—

Ending balance

29

25

25

**ADDITIONAL PAID-IN CAPITAL**

Beginning balance

3,628

3,562

3,589

RSUs exchanged for Common Stock

(36)

63

(13)

Employee stock-based awards

107

53

53

Shares issued to RSU Trust

(459)

(401)

(628)

Tax benefits from the issuance of stock-based awards

543

347

549

Shares issued in connection with Neuberger acquisition

2,371

—

—

Other, net

10

4

12

Ending balance

\$6,164

\$3,628

\$3,562

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES  
IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS  
YEAR ENDED NOVEMBER 30

ACCUMULATED OTHER COMPREHENSIVE INCOME

	2003	2002	2001
Beginning balance	\$ (13)	\$ (10)	\$ (8)
Translation adjustment, net <sup>(1)</sup>	(3)	(3)	(2)
Ending balance	(16)	(13)	(10)

RETAINED EARNINGS

Beginning balance	5,608	4,798	3,713
Net income	1,699	975	1,255
Dividends declared:			
5.00% Cumulative Convertible Voting Series A and B Preferred Stock	-	-	(1)
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(18)	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	(6)	-	-
Redeemable Voting Preferred Stock	-	(25)	(50)
Common Stock	(128)	(96)	(75)
Ending balance	7,129	5,608	4,798

COMMON STOCK ISSUABLE

Beginning balance	2,822	2,933	2,524
RSUs exchanged for Common Stock	(425)	(463)	(215)
Deferred stock awards granted	957	407	624
Other, net	(1)	(55)	-
Ending balance	3,353	2,822	2,933

COMMON STOCK HELD IN RSU TRUST

Beginning balance	(754)	(827)	(647)
Shares issued to RSU Trust	(518)	(297)	(403)
RSUs exchanged for Common Stock	444	387	223
Other, net	(24)	(17)	-
Ending balance	(852)	(754)	(827)

DEFERRED STOCK COMPENSATION

Beginning balance	(1,119)	(1,360)	(1,280)
Deferred stock awards granted	(999)	(407)	(624)
Amortization of deferred compensation, net	625	570	544
Other, net	23	78	-
Ending balance	(1,470)	(1,119)	(1,360)

COMMON STOCK IN TREASURY, AT COST

Beginning balance	(1,955)	(1,362)	(835)
Treasury stock purchased	(1,508)	(1,510)	(1,676)
RSUs exchanged for Common Stock	18	-	5
Shares issued for preferred stock conversion	-	-	44
Employee stock-based awards	260	219	69
Shares issued to RSU Trust	977	698	1,031
Ending balance	(2,208)	(1,955)	(1,362)
Total stockholders' equity	\$13,174	\$ 8,942	\$ 8,459

<sup>(1)</sup> Net of income taxes of \$(1) in 2003, \$(1) in 2002 and \$(1) in 2001.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS  
YEAR ENDED NOVEMBER 30

**CASH FLOWS FROM OPERATING ACTIVITIES**

	2003	2002	2001
Net income	\$ 1,699	\$ 975	\$ 1,255
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	315	258	174
Deferred tax provision (benefit)	(166)	(670)	(643)
Tax benefit from issuance of stock-based awards	543	347	549
Amortization of deferred stock compensation	625	570	544
September 11th (recoveries) expenses	-	(108)	356
Other real estate reconfiguration charge	77	128	-
Regulatory settlement	-	80	-
Other adjustments	(26)	92	(1)
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(297)	486	(855)
Securities and other inventory positions owned	(16,148)	1,708	(13,219)
Securities borrowed, net of securities loaned	(25,048)	(6,907)	4,923
Other secured borrowings	2,700	4,060	3,805
Resale agreements, net of repurchase agreements	19,504	(18,442)	(8,957)
Receivables from brokers, dealers and clearing organizations	(1,100)	(320)	(1,793)
Receivables from customers	(530)	3,844	(4,538)
Securities and other inventory positions sold but not yet purchased	6,848	17,704	16,045
Payables to brokers, dealers and clearing organizations	1,280	(1,018)	883
Payables to customers	10,189	3,646	2,194
Accrued liabilities and other payables	1,736	277	(27)
Other operating assets and liabilities, net	346	(693)	(394)
Net cash provided by operating activities	2,547	6,017	301

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from issuance of senior notes	13,193	8,415	9,915
Principal payments of senior notes	(9,815)	(9,014)	(7,646)
Proceeds from issuance of subordinated indebtedness	190	-	-
Principal payments of subordinated indebtedness	(322)	(715)	(204)
Issuances of common stock	57	61	54
Issuance of preferred securities subject to mandatory redemption	600	-	-
Issuance of preferred stock, net of issuance costs	345	-	-
Net payments for commercial paper and short-term debt	(38)	(1,623)	(1,808)
Repurchases of preferred stock	-	-	(100)
Payments for treasury stock purchases	(1,508)	(1,510)	(1,676)
Issuance of treasury stock	260	207	69
Dividends paid	(178)	(165)	(163)
Net cash provided by (used in) financing activities	2,784	(4,344)	(1,559)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchases of property, equipment and leasehold improvements, net	(451)	(656)	(1,341)
Proceeds from the sale of 3 World Financial Center, net	-	152	-
Business acquisitions, net of cash acquired	(657)	(31)	-
Net cash used in investing activities	(1,108)	(535)	(1,341)
Net change in cash and cash equivalents	4,223	1,138	(2,599)
Cash and cash equivalents, beginning of period	3,699	2,561	5,160
Cash and cash equivalents, end of period	\$ 7,922	\$ 3,699	\$ 2,561

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (in millions):**

Interest paid totaled \$8,654 in 2003, \$10,686 in 2002 and \$15,588 in 2001.

Income taxes paid totaled \$717 in 2003, \$436 in 2002 and \$654 in 2001.

See Notes to Consolidated Financial Statements.

In 1997, the Company established an irrevocable grantor trust (the "RSU Trust") to provide common stock voting rights to employees who hold outstanding restricted stock units ("RSUs") and to encourage employees to think and act like owners. In 2003, 2002 and 2001, 14.0 million, 9.3 million and 16.0 million treasury shares, respectively, were transferred into the RSU Trust. At November 30, 2003, approximately 33.4 million shares were held in the RSU Trust with a total value of approximately \$851 million. For accounting purposes, these shares are valued at weighted-average grant prices. Shares trans-

ferred to the RSU Trust do not affect the total number of shares used in the computation of earnings per common share because the Company considers the RSUs to be common stock equivalents for purposes of this computation. Accordingly, the RSU Trust has no effect on the total equity, net income or earnings per share of the Company.

In connection with the Neuberger acquisition, the Company issued 32,326,000 shares of common stock to acquire Neuberger and 804,804 shares of restricted common stock, a portion of which is subject to future service requirements.

## NOTE 15 INCENTIVE PLANS

### Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") allows employees to purchase Common Stock at a 15% discount from market value, with a maximum of \$25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees is 12.0 million. At November 30, 2003 and 2002, 6.1 million shares and 5.8 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP.

### 1994 Management Ownership Plan

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2003, RSU, PSU and stock option awards with respect to 31.2 million shares of Common Stock have been made under the 1994 Plan, of which 1.5 million are outstanding and 29.7 million have been converted to freely transferable Common Stock.

### 1996 Management Ownership Plan

During 1996, the Company's stockholders approved the 1996 Management Ownership Plan (the "1996 Plan") under which awards similar to those of the 1994 Plan may be granted, and under which up to 42.0 million shares of Common Stock may be subject to awards. At November 30, 2003, RSU, PSU and stock option awards with respect to 38.1 million shares of Common Stock have been made under the 1996 Plan of which 18.7 million are outstanding and 19.4 million have been converted to freely transferable Common Stock.

### Employee Incentive Plan

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors for the issuance of up to 246.0 million shares of Common Stock that may be subject to awards. At November 30, 2003 awards with respect to 204.5 million shares of Common Stock have been

made under the EIP of which 125.3 million are outstanding and 79.2 million have been converted to freely transferable Common Stock.

The following is a summary of RSUs outstanding under Holdings' stock-based incentive plans:

### RESTRICTED STOCK UNITS

	Total
<b>BALANCE, NOVEMBER 30, 2000</b>	82,622,541
Granted	15,292,447
Canceled	(3,268,825)
Exchanged for stock without restrictions	(18,189,092)
<b>BALANCE, NOVEMBER 30, 2001</b>	76,457,071
Granted	9,178,667
Canceled	(1,750,479)
Exchanged for stock without restrictions	(14,547,191)
<b>BALANCE, NOVEMBER 30, 2002</b>	69,338,068
Granted	13,071,646
Canceled	(1,447,319)
Exchanged for stock without restrictions	(18,344,208)
<b>BALANCE, NOVEMBER 30, 2003 <sup>(1)</sup></b>	62,618,187

<sup>(1)</sup> Excludes RSUs issued in connection with the Company's acquisition of Neuberger. See Neuberger Acquisition on page 97 and Note 6 to the Consolidated Financial Statements.

Eligible employees receive RSUs as a portion of their total compensation in lieu of cash. There is no further cost to employees associated with the RSU awards. The Company measures compensation cost for RSUs based on the market value of its Common Stock at the grant date and amortizes this amount to expense over the applicable vesting periods. RSU awards made to employees have various vesting provisions and generally convert to unrestricted freely transferable Common Stock five years from the grant date. Holdings accrues a dividend equivalent on each RSU outstanding (in the form of additional RSUs), based on dividends declared on its Common Stock.

## The Lehman Brothers Standard

It's our own "metric." It's what differentiates us as a Firm. It's a standard of excellence by which we judge ourselves. It's reflected in the numbers, but it's much more than numbers. It's a measure of distinction that we strive to achieve. It's a course of action that fuels our growth and our momentum. It's a strategy centered around our clients and their success.

It means utilizing our intellectual capital to generate the best creative ideas and solutions for our clients.

It means delivering the full resources of the Firm to every client every day to help them build their vision.

It means building partnerships with each of our clients and expanding our business on the basis of these growing relationships.

It means fostering a culture of ownership, one full of opportunity, initiative and responsibility, where exceptional people want to build their careers.

It means integrity in all that we do.

Simply put, it means building on the extraordinary momentum we began when we became a public company ten years ago. The measures we achieved this year—both financial and non-financial—point to one truth: we achieved the Lehman Brothers Standard in

# 2004

ANNUAL REPORT

LEHMAN BROTHERS

ML-15

REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. and Subsidiaries (the "Company") as of November 30, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended November 30, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. and Subsidiaries at November 30, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2004, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

New York, New York

February 14, 2005

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA  
YEAR ENDED NOVEMBER 30

	2004	2003	2002
<b>REVENUES</b>			
Principal transactions	\$ 5,699	\$ 4,272	\$ 1,951
Investment banking	2,188	1,722	1,731
Commissions	1,537	1,210	1,286
Interest and dividends	11,032	9,942	11,728
Asset management and other	794	141	85
Total revenues	21,250	17,287	16,781
Interest expense	9,674	8,640	10,626
Net revenues	11,576	8,647	6,155
<b>NON-INTEREST EXPENSES</b>			
Compensation and benefits	5,730	4,318	3,139
Technology and communications	764	598	552
Brokerage and clearance fees	453	367	329
Occupancy	421	319	287
Professional fees	252	158	129
Business development	211	149	146
Other	208	125	74
Other real estate reconfiguration charge	19	77	128
September 11th related recoveries, net	—	—	(108)
Regulatory settlement	—	—	80
Total non-interest expenses	8,058	6,111	4,756
Income before taxes and dividends on trust preferred securities	3,518	2,536	1,399
Provision for income taxes	1,125	765	368
Dividends on trust preferred securities	24	72	56
Net income	\$ 2,369	\$ 1,699	\$ 975
Net income applicable to common stock	\$ 2,297	\$ 1,649	\$ 906
<b>EARNINGS PER COMMON SHARE</b>			
Basic	\$ 8.36	\$ 6.71	\$ 3.69
Diluted	\$ 7.90	\$ 6.35	\$ 3.47

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS  
NOVEMBER 30

	2004	2003
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,440	\$ 7,922
Cash and securities segregated and on deposit for regulatory and other purposes	4,085	3,100
Securities and other inventory positions owned: (includes \$27,418 in 2004 and \$32,273 in 2003 pledged as collateral)	144,468	133,634
Securities received as collateral	4,749	3,406
Collateralized agreements:		
Securities purchased under agreements to resell	95,535	87,416
Securities borrowed	74,294	51,396
Receivables:		
Brokers, dealers and clearing organizations	3,400	4,875
Customers	13,241	8,809
Others	2,122	1,626
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$1,187 in 2004 and \$921 in 2003)	2,988	2,806
Other assets	3,562	3,510
Identifiable intangible assets and goodwill (net of accumulated amortization of \$212 in 2004 and \$166 in 2003)	3,284	3,561
<b>Total assets</b>	<b>\$357,168</b>	<b>\$312,061</b>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(continued)

IN MILLIONS, EXCEPT PER SHARE DATA  
NOVEMBER 30

	2004	2003
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Commercial paper and short-term debt	\$ 2,857	\$ 2,331
Securities and other inventory positions sold but not yet purchased	96,281	72,476
Obligation to return securities received as collateral	4,749	3,406
Collateralized financing:		
Securities sold under agreements to repurchase	105,956	107,304
Securities loaned	14,158	13,988
Other secured borrowings	11,621	14,544
Payables:		
Brokers, dealers and clearing organizations	1,705	3,067
Customers	37,824	27,666
Accrued liabilities and other payables	10,611	9,266
Long-term debt:		
Senior notes	53,561	41,303
Subordinated indebtedness	2,925	2,226
Total liabilities	342,248	297,577
Commitments and contingencies		
Preferred securities subject to mandatory redemption	—	1,310
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	1,345	1,045
Common stock, \$0.10 par value;		
Shares authorized: 600,000,000 in 2004 and 2003;		
Shares issued: 297,796,197 in 2004 and 294,575,285 in 2003;		
Shares outstanding: 274,159,411 in 2004 and 266,679,056 in 2003	30	29
Additional paid-in capital	5,865	6,164
Accumulated other comprehensive income (net of tax)	(19)	(16)
Retained earnings	9,240	7,129
Other stockholders' equity, net	741	1,031
Common stock in treasury, at cost: 23,636,786 shares in 2004 and 27,896,229 shares in 2003	(2,282)	(2,208)
Total stockholders' equity	14,920	13,174
Total liabilities and stockholders' equity	\$357,168	\$312,061

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS  
YEAR ENDED NOVEMBER 30

	2004	2003	2002
<b>PREFERRED STOCK</b>			
5.94% Cumulative, Series C:			
Beginning and ending balance	\$ 250	\$ 250	\$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning and ending balance	250	250	250
6.50% Cumulative, Series F:			
Beginning balance	345	-	-
Shares issued	-	345	-
Ending balance	345	345	-
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning balance	-	-	-
Shares issued	300	-	-
Ending balance	300	-	-
Total preferred stock, ending balance	1,345	1,045	700
<b>COMMON STOCK, PAR VALUE \$0.10 PER SHARE</b>			
Beginning balance	29	25	25
Shares issued in connection with Neuberger acquisition	-	3	-
Issued	1	1	-
Ending balance	30	29	25
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	6,164	3,628	3,562
RSUs exchanged for Common Stock	135	(36)	63
Employee stock-based awards	132	107	53
Shares issued to RSU Trust	(717)	(459)	(401)
Tax benefit from the issuance of stock-based awards	468	543	347
Shares issued in connection with Neuberger acquisition	-	2,371	-
Neuberger final purchase price valuation adjustment	(307)	-	-
Other, net	(10)	10	4
Ending balance	5,865	6,164	3,628
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Beginning balance	(16)	(13)	(10)
Translation adjustment, net <sup>(1)</sup>	(3)	(3)	(3)
Ending balance	\$ (19)	\$ (16)	\$ (13)

<sup>(1)</sup> Net of income taxes of \$(2) in 2004, \$(1) in 2003 and \$(1) in 2002.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS  
YEAR ENDED NOVEMBER 30

	2004	2003	2002
<b>RETAINED EARNINGS</b>			
Beginning balance	\$ 7,129	5,608	4,798
Net income	2,369	1,699	975
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(18)	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	(23)	(6)	—
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(5)	—	—
Redeemable Voting Preferred Stock	—	—	(25)
Common Stock	(186)	(128)	(96)
Ending balance	9,240	7,129	5,608
<b>COMMON STOCK ISSUABLE</b>			
Beginning balance	3,353	2,822	2,933
RSUs exchanged for Common Stock	(585)	(425)	(463)
Deferred stock awards granted	1,182	957	407
Other, net	(76)	(1)	(55)
Ending balance	3,874	3,353	2,822
<b>COMMON STOCK HELD IN RSU TRUST</b>			
Beginning balance	(852)	(754)	(827)
Shares issued to RSU Trust	(876)	(518)	(297)
RSUs exchanged for Common Stock	401	444	387
Other, net	(26)	(24)	(17)
Ending balance	(1,353)	(852)	(754)
<b>DEFERRED STOCK COMPENSATION</b>			
Beginning balance	(1,470)	(1,119)	(1,360)
Deferred stock awards granted	(1,182)	(999)	(407)
Amortization of deferred compensation, net	773	625	570
Other, net	99	23	78
Ending balance	(1,780)	(1,470)	(1,119)
<b>COMMON STOCK IN TREASURY, AT COST</b>			
Beginning balance	(2,208)	(1,955)	(1,362)
Treasury stock purchased	(2,267)	(1,508)	(1,510)
RSUs exchanged for Common Stock	49	18	—
Employee stock-based awards	551	260	219
Shares issued to RSU Trust	1,593	977	698
Ending balance	(2,282)	(2,208)	(1,955)
Total stockholders' equity	\$14,920	\$13,174	\$ 8,942

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS  
YEAR ENDED NOVEMBER 30

	2004	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 2,369	\$ 1,699	\$ 975
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	428	315	258
Deferred tax benefit	(74)	(166)	(670)
Tax benefit from the issuance of stock-based awards	468	543	347
Amortization of deferred stock compensation	800	625	570
September 11th related recoveries, net	—	—	(108)
Other real estate reconfiguration charge	19	77	128
Regulatory settlement	—	—	80
Other adjustments	85	(26)	92
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(985)	(297)	486
Securities and other inventory positions owned	(8,936)	(14,736)	1,968
Resale agreements, net of repurchase agreements	(9,467)	19,504	(18,442)
Securities borrowed, net of securities loaned	(22,728)	(25,048)	(6,907)
Other secured borrowings	(2,923)	2,700	4,060
Receivables from brokers, dealers and clearing organizations	1,475	(1,100)	(320)
Receivables from customers	(4,432)	(530)	3,844
Securities and other inventory positions sold but not yet purchased	23,471	5,326	17,444
Payables to brokers, dealers and clearing organizations	(1,362)	1,280	(1,018)
Payables to customers	10,158	10,189	3,646
Accrued liabilities and other payables	1,094	1,736	277
Other operating assets and liabilities, net	(370)	346	(693)
Net cash provided by (used in) operating activities	(10,910)	2,437	6,017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Derivative contracts with a financing element	334	110	—
Issuance of payments for commercial paper and short-term debt, net	526	(38)	(1,623)
Issuance of senior notes	20,059	13,193	8,415
Principal payments of senior notes	(9,828)	(9,815)	(9,014)
Issuance of subordinated indebtedness	426	190	—
Principal payments of subordinated indebtedness	(992)	(322)	(715)
Issuance of preferred securities subject to mandatory redemption	—	600	—
Issuance of common stock	108	57	61
Issuance of preferred stock	300	345	—
Purchase of treasury stock	(2,267)	(1,508)	(1,510)
Issuance of treasury stock	551	260	207
Dividends paid	(258)	(178)	(165)
Net cash provided by (used in) financing activities	8,959	2,894	(4,344)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, equipment and leasehold improvements, net	(401)	(451)	(656)
Proceeds from the sale of 3 World Financial Center, net	—	—	152
Business acquisitions, net of cash acquired	(130)	(657)	(31)
Net cash used in investing activities	(531)	(1,108)	(535)
Net change in cash and cash equivalents	(2,482)	4,223	1,138
Cash and cash equivalents, beginning of period	7,922	3,699	2,561
Cash and cash equivalents, end of period	\$ 5,440	\$ 7,922	\$ 3,699

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (IN MILLIONS):**

Interest paid totaled \$9,534, \$8,654 and \$10,686 in 2004, 2003 and 2002, respectively.  
Income taxes paid totaled \$638, \$717 and \$436 in 2004, 2003 and 2002, respectively.

See Notes to Consolidated Financial Statements.

NOTE 16 INCENTIVE PLANS

**Employee Stock Purchase Plan**

The Employee Stock Purchase Plan (the "ESPP") allowed employees to purchase Common Stock at a 15% discount from market value, with a maximum of \$25,000 in annual aggregate purchases by any one individual. The number of shares of Common Stock authorized for purchase by eligible employees was 12.0 million. At November 30, 2004 and 2003, 6.3 million shares and 6.1 million shares, respectively, of Common Stock had cumulatively been purchased by eligible employees through the ESPP. On June 30, 2004, the ESPP expired following the completion of its 10-year term as approved by shareholders.

**1994 Management Ownership Plan**

The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan") provides for the issuance of RSUs, performance stock units ("PSUs"), stock options and other equity awards for a period of up to ten years to eligible employees. A total of 33.3 million shares of Common Stock may be granted under the 1994 Plan. At November 30, 2004, RSU, PSU and stock option awards with respect to 33.1 million shares of Common Stock have been made under the 1994 Plan, of which 3.1 million are outstanding and 30.0 million have been converted to freely transferable Common Stock. On May 31, 2004 the 1994 Plan expired following the completion of its 10-year term.

**1996 Management Ownership Plan**

The 1996 Management Ownership Plan (the "1996 Plan"), under which awards similar to those of the 1994 Plan may be granted, provides for up to 42.0 million shares of Common Stock to be subject to awards. At November 30, 2004, RSU, PSU and stock option awards with respect to 38.2 million shares of Common Stock have been made under the 1996 Plan of which 14.9 million are outstanding and 23.3 million have been converted to freely transferable Common Stock.

**Employee Incentive Plan**

The Employee Incentive Plan ("EIP") has provisions similar to the 1994 Plan and the 1996 Plan, and authorization from the Board of Directors to issue up to 246.0 million shares of Common Stock that may be subject to awards. At November 30, 2004 awards with respect to 220.2 million shares of Common Stock have been made under the EIP of which 115.3 million are outstanding and 104.9 million have been converted to freely transferable Common Stock.

**1999 Long Term Incentive Plan**

The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of Common Stock that may be issued under the LTIP may not exceed 7.7 million. At November 30, 2004, awards with respect to approximately 6.7 million shares of Common Stock have been made under the LTIP, of which approximately 5.2 million restricted shares, RSUs and stock options

are outstanding and 1.5 million have been converted to freely transferable Common Stock.

**1999 Directors Stock Incentive Plan**

The 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (the "DSIP") provided for the grant of stock options or restricted stock to non-employee members of Neuberger's board of directors. Non-employee directors could elect to exchange a portion of their annual cash retainer paid by Neuberger for services rendered as a director for restricted stock. At November 30, 2004, awards with respect to approximately 62,000 shares have been made under the DSIP of which approximately 52,000 stock option awards are outstanding and approximately 10,000 have been converted to freely transferable Common Stock. We do not intend to grant additional awards from the DSIP.

**Wealth Accumulation Plan**

The Neuberger Berman Inc. Wealth Accumulation Plan (the "WAP") provides that on an annual basis, employees who receive commissions and other direct pay and those eligible for a bonus may elect to defer a portion of their compensation. In each case, up to 20% of total compensation may be deferred with a maximum deferral of up to \$50,000. provided that employees who receive an annual bonus may, in any event, defer no more than the full amount of the bonus. Amounts deferred by employees are used to acquire, on a pretax basis, the Common Stock at a 25% discount from market value. Any stock so acquired is restricted with respect to transfer or sale and vests three years after the grant date. Certain benefits of ownership, including the payment of any dividends declared during the restricted period, belong to the employees. At November 30, 2004, awards with respect to approximately 122,000 shares of Common Stock have been made under the WAP of which approximately 74,000 shares are outstanding and approximately 48,000 have been converted to freely transferable Common Stock. We do not intend to allow further deferrals under the WAP and the WAP will terminate on the last day on which any restricted stock outstanding under the WAP becomes vested.

**Restricted Stock Units**

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees with respect to the RSU awards. We measure compensation cost for RSUs based on the market value of our Common Stock at the grant date for awards granted prior to 2004 and based on the market value of our Common Stock at the grant date less a discount for sale restriction subsequent to the vesting date for awards granted in 2004. We amortize this cost over the applicable service periods. RSU awards made to employees are subject to various vesting provisions and generally convert to freely transferable Common Stock five years from the grant date. RSUs are entitled to dividend equivalent on each RSU outstanding (in the form of cash or RSUs), based on dividends declared on our Common Stock.

The following table summarizes RSUs outstanding under stock-based incentive plans:

### RESTRICTED STOCK UNITS

	2004	2003	2002
Balance, beginning of year	64,343,313	69,338,068	76,457,071
Granted	14,899,012	14,796,772 <sup>(1)</sup>	9,178,667
Canceled	(1,276,002)	(1,447,319)	(1,750,479)
Exchanged for stock without restrictions	(13,723,930)	(18,344,208)	(14,547,191)
Balance, end of year	64,242,393	64,343,313	69,338,068
Shares held in RSU Trust	(38,861,068)	(33,408,893)	(36,641,395)
RSUs outstanding, net of shares held in RSU trust	25,381,325	30,934,420	32,696,673

<sup>(1)</sup> Includes approximately 1.7 million RSUs granted in 2003 related to our acquisition of Neuberger. See Note 6 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

We have repurchased approximately 40 million shares to offset the future delivery requirements associated with the above RSUs. These shares either were transferred to the RSU Trust or are held as Treasury stock. Of the RSUs outstanding at November 30, 2004, approximately 39.9 million were amortized and included in basic and diluted earnings per share, approximately 9.7 million will be amortized during 2005, and the remainder will be amortized subsequent to November 30, 2005. See Note 13 to the Consolidated Financial Statements for additional information.

Included in the previous table are PSUs we awarded to certain senior officers. The number of PSUs that may be earned is dependent on achieving certain performance levels within predetermined

performance periods. During the performance period, these PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs that then vest in three or more years. At November 30, 2004, approximately 11.2 million PSUs had been awarded, of which 6.4 million remained outstanding, subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the combined performance and vesting periods.

### Stock Options

The following table summarizes stock option activity for the years ended November 30, 2004, 2003 and 2002:

### STOCK OPTION ACTIVITY

	Options	Weighted-Average Exercise Price	Expiration Dates
Balance, November 30, 2001	68,394,214	\$37.53	1/02-11/11
Granted	26,211,500	\$54.94	
Exercised	(9,652,041)	\$25.02	
Canceled	(1,413,181)	\$43.20	
Balance, November 30, 2002	83,540,492	\$44.21	11/03-11/12
Granted <sup>(1)</sup>	15,536,462	\$66.98	
Exercised <sup>(1)</sup>	(10,595,469)	\$28.08	
Canceled <sup>(1)</sup>	(1,734,835)	\$46.63	
Balance, November 30, 2003	86,746,650	\$50.21	12/03-11/13
Granted	5,423,596	\$80.74	
Exercised	(17,167,352)	\$36.36	
Canceled	(1,459,299)	\$56.48	
Balance, November 30, 2004	73,543,595	\$55.57	12/04-11/14

<sup>(1)</sup> Includes approximately 4.3 million stock options granted, 0.3 million stock options exercised, and 0.1 million stock options canceled in 2003 related to our acquisition of Neuberger. See Note 6 to the Consolidated Financial Statements for additional information about the Neuberger acquisition.

LEHMAN BROTHERS

ML-16

2005 Annual Report

Powerful  
Performance.  
Raising  
the Bar.

ML-16

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2005 and 2004, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2006 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

New York, New York

February 13, 2006

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA  
YEAR ENDED NOVEMBER 30

	2005	2004	2003
<b>REVENUES</b>			
Principal transactions	\$ 7,811	\$ 5,699	\$ 4,272
Investment banking	2,894	2,188	1,722
Commissions	1,728	1,537	1,210
Interest and dividends	19,043	11,032	9,942
Asset management and other	944	794	141
Total revenues	32,420	21,250	17,287
Interest expense	17,790	9,674	8,640
Net revenues	14,630	11,576	8,647
<b>NON-INTEREST EXPENSES</b>			
Compensation and benefits	7,213	5,730	4,318
Technology and communications	834	764	598
Brokerage and clearance fees	503	453	367
Occupancy	490	421	319
Professional fees	282	252	158
Business development	234	211	149
Other	245	208	125
Real estate reconfiguration charge	-	19	77
Total non-personnel expenses	2,588	2,328	1,793
Total non-interest expenses	9,801	8,058	6,111
Income before taxes and dividends on trust preferred securities	4,829	3,518	2,536
Provision for income taxes	1,569	1,125	765
Dividends on trust preferred securities	-	24	72
Net income	\$ 3,260	\$ 2,369	\$ 1,699
Net income applicable to common stock	\$ 3,191	\$ 2,297	\$ 1,649
<b>EARNINGS PER SHARE</b>			
Basic	\$ 11.47	\$ 8.36	\$ 6.71
Diluted	\$ 10.87	\$ 7.90	\$ 6.35

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS  
NOVEMBER 30

	2005	
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,900	\$ 5,44
Cash and securities segregated and on deposit for regulatory and other purposes	5,744	4,085
Financial instruments and other inventory positions owned:		
(includes \$36,369 in 2005 and \$27,418 in 2004 pledged as collateral)	177,438	144,468
Securities received as collateral	4,975	4,749
Collateralized agreements:		
Securities purchased under agreements to resell	106,209	95,535
Securities borrowed	78,455	74,294
Receivables:		
Brokers, dealers and clearing organizations	7,454	3,400
Customers	12,887	13,241
Others	1,302	2,122
Property, equipment and leasehold improvements		
(net of accumulated depreciation and amortization of \$1,448 in 2005		
and \$1,187 in 2004)	2,885	2,988
Other assets	4,558	3,562
Identifiable intangible assets and goodwill		
(net of accumulated amortization of \$257 in 2005 and \$212 in 2004)	3,256	3,284
<b>Total assets</b>	<b>\$410,063</b>	<b>\$357,168</b>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(continued)

IN MILLIONS, EXCEPT PER SHARE DATA  
NOVEMBER 30

	2005	2004
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short-term borrowings	\$ 2,941	\$ 2,857
Financial instruments and other inventory positions sold but not yet purchased	110,577	96,281
Obligation to return securities received as collateral	4,975	4,749
Collateralized financings:		
Securities sold under agreements to repurchase	116,155	105,956
Securities loaned	13,154	14,158
Other secured borrowings	23,116	11,621
Payables:		
Brokers, dealers and clearing organizations	1,870	1,705
Customers	47,210	37,824
Accrued liabilities and other payables	10,962	10,611
Long-term borrowings	62,309	56,486
Total liabilities	393,269	342,248
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	1,095	1,345
Common stock, \$0.10 par value;		
Shares authorized: 600,000,000 in 2005 and 2004;		
Shares issued: 302,668,973 in 2005 and 297,796,197 in 2004;		
Shares outstanding: 271,437,103 in 2005 and 274,159,411 in 2004	30	30
Additional paid-in capital	6,314	5,865
Accumulated other comprehensive income (net of tax)	(16)	(19)
Retained earnings	12,198	9,240
Other stockholders' equity, net	765	741
Common stock in treasury, at cost: 31,231,870 shares in 2005 and 23,636,786 shares in 2004	(3,592)	(2,282)
Total common stockholders' equity	15,699	13,575
Total stockholders' equity	16,794	14,920
Total liabilities and stockholders' equity	\$410,063	\$357,168

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS YEAR ENDED NOVEMBER 30			
	2005	2004	2003
<b>PREFERRED STOCK</b>			
5.94% Cumulative, Series C:			
Beginning and ending balance			
5.67% Cumulative, Series D:	\$ 250	\$ 250	\$ 250
Beginning and ending balance			
7.115% Fixed/Adjustable Rate Cumulative, Series E:	200	200	200
Beginning balance			
Redemptions	250	250	250
Ending balance	(250)	250	250
6.50% Cumulative, Series F:	-	250	250
Beginning balance			
Issuances	345	345	-
Ending balance	-	-	345
Floating Rate (3% Minimum) Cumulative, Series G:	345	345	345
Beginning balance			
Issuances	300	-	-
Ending balance	300	300	-
Total preferred stock, ending balance	1,095	1,345	1,045
<b>COMMON STOCK, PAR VALUE \$0.10 PER SHARE</b>			
Beginning balance	30	29	25
Issuances in connection with Neuberger acquisition	-	-	3
Other Issuances	-	1	1
Ending balance	30	30	29
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	5,865	6,164	3,628
RSUs exchanged for Common Stock	184	135	(36)
Employee stock-based awards	(760)	(585)	(352)
Tax benefit from the issuance of stock-based awards	1,005	468	543
Share issuances in connection with Neuberger acquisition	-	-	2,371
Neuberger final purchase price adjustment	-	(307)	-
Other, net	20	(10)	10
Ending balance	6,314	5,865	6,164
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>			
Beginning balance	(19)	(16)	(13)
Translation adjustment, net (1)	3	(3)	(3)
Ending balance	\$ (16)	\$ (19)	\$ (16)

See Notes to Consolidated Financial Statements.

(1) Net of income taxes of \$1 in 2005, \$(2) in 2004 and \$(1) in 2003.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS  
YEAR ENDED NOVEMBER 30

	2005	2004	2003
<b>RETAINED EARNINGS</b>			
Beginning balance	\$ 9,240	\$ 7,129	\$ 5,608
Net income	3,260	2,369	1,699
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	(9)	(18)	(18)
6.50% Cumulative, Series F Preferred Stock	(22)	(23)	(6)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(12)	(5)	—
Common Stock	(233)	(186)	(128)
Ending balance	12,198	9,240	7,129
<b>COMMON STOCK ISSUABLE</b>			
Beginning balance	3,874	3,353	2,822
RSUs exchanged for Common Stock	(832)	(585)	(425)
Deferred stock awards granted	1,574	1,182	957
Other, net	(68)	(76)	(1)
Ending balance	4,548	3,874	3,353
<b>COMMON STOCK HELD IN RSU TRUST</b>			
Beginning balance	(1,353)	(852)	(754)
Employee stock-based awards	(676)	(876)	(518)
RSUs exchanged for Common Stock	549	401	444
Other, net	(30)	(26)	(24)
Ending balance	(1,510)	(1,353)	(852)
<b>DEFERRED STOCK COMPENSATION</b>			
Beginning balance	(1,780)	(1,470)	(1,119)
Deferred stock awards granted	(1,574)	(1,182)	(999)
Amortization of deferred compensation, net	988	773	625
Other, net	93	99	23
Ending balance	(2,273)	(1,780)	(1,470)
<b>COMMON STOCK IN TREASURY, AT COST</b>			
Beginning balance	(2,282)	(2,208)	(1,955)
Repurchases of Common Stock	(2,994)	(1,693)	(967)
Shares reacquired from employee transactions	(1,163)	(574)	(541)
RSUs exchanged for Common Stock	99	49	18
Employee stock-based awards	2,748	2,144	1,237
Ending balance	(3,592)	(2,282)	(2,208)
Total stockholders' equity	\$16,794	\$14,920	\$13,174

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS  
YEAR ENDED NOVEMBER 30

	CASH FLOWS FROM OPERATING ACTIVITIES	
	2005	2004
Net income		
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization		
Deferred tax benefit	426	428
Tax benefit from the issuance of stock-based awards	(502)	(74)
Amortization of deferred stock compensation	1,005	468
Real estate reconfiguration charge	1,055	800
Other adjustments	-	19
Net change in:	173	85
Cash and securities segregated and on deposit for regulatory and other purposes	(1,659)	(985)
Financial instruments and other inventory positions owned	(36,652)	(8,936)
Resale agreements, net of repurchase agreements	(475)	(9,467)
Securities borrowed, net of securities loaned	(5,165)	(22,728)
Other secured borrowings	11,495	(2,923)
Receivables from brokers, dealers and clearing organizations	(4,054)	1,475
Receivables from customers	354	(4,432)
Financial instruments and other inventory positions sold but not yet purchased	14,156	23,471
Payables to brokers, dealers and clearing organizations	165	(1,362)
Payables to customers	9,386	10,158
Accrued liabilities and other payables	(801)	520
Other operating assets and liabilities, net	345	(370)
Net cash provided by (used in) operating activities	(7,488)	(11,484)
CASH FLOWS FROM FINANCING ACTIVITIES		
Derivative contracts with a financing element		
Issuance (payments) of short-term borrowings, net	140	334
Issuance of long-term borrowings	84	526
Principal payments of long-term borrowings	23,705	20,485
Issuance of preferred securities subject to mandatory redemption	(14,233)	(10,820)
Issuance of common stock	-	-
Issuance (retirement) of preferred stock	230	108
Issuance of treasury stock	(250)	300
Purchase of treasury stock	1,015	551
Dividends paid	(2,994)	(1,693)
Net cash provided by financing activities	(302)	(258)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and leasehold improvements, net	7,395	9,533
Business acquisitions, net of cash acquired	(409)	(401)
Net cash used in investing activities	(38)	(130)
Net change in cash and cash equivalents	(447)	(531)
Cash and cash equivalents, beginning of period	(540)	(2,482)
Cash and cash equivalents, end of period	5,440	7,922
	\$ 4,900	\$ 5,440
		\$ 7,922
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (IN MILLIONS):		
Interest paid totaled \$17,893, \$9,534 and \$8,654 in 2005, 2004 and 2003, respectively.		
Income taxes paid totaled \$789, \$638 and \$717 in 2005, 2004 and 2003, respectively.		

See Notes to Consolidated Financial Statements.

in accounting principle, primarily attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. We do not expect adoption of SFAS 123(R) otherwise will have a material effect on our consolidated financial statements.

SFAS 123(R) generally requires equity-based awards granted to retirement-eligible employees, and those employees with non-substantive non-compete agreements to be expensed immediately. For stock-based awards granted prior to our adoption of SFAS 123(R), compensation cost for retirement eligible employees and employees

subject to non-compete agreements, is recognized over the service period specified in the award. We accelerate the recognition of compensation cost if and when a retirement-eligible employee or an employee subject to a non-compete agreement, leaves the Company.

The following table sets forth the pro forma net income that would have been reported for the years ended November 30, 2005, 2004 and 2003 if equity-based awards granted to retirement-eligible employees, and those with non-substantive non-compete agreements had been expensed immediately as required by SFAS 123(R):

PRO FORMA NET INCOME			
IN MILLIONS YEAR ENDED NOVEMBER 30	2005	2004	2003
Net income, as reported	\$3,260	\$2,369	\$1,699
Add: stock-based employee compensation expense included in reported net income, net of related tax effect	611	464	362
Deduct: stock-based employee compensation expense, net of related tax effect, determined under SFAS 123(R)	(867)	(643)	(447)
Pro forma net income	\$3,004	\$2,190	\$1,614

**EITF Issue No. 04-5** In June 2005, the FASB ratified the consensus reached in EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights", ("EITF 04-5") which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. As the general partner of numerous private equity, merchant

banking and asset management partnerships, we adopted EITF 04-5 immediately for partnerships formed or modified after June 29, 2005. For partnerships formed on or before June 29, 2005 that have not been modified, we are required to adopt EITF 04-5 on December 1, 2006 in a manner similar to a cumulative-effect-type adjustment or by retrospective application. We do not expect adoption of EITF 04-5 for partnerships formed on or before June 29, 2005 that have not been modified will have a material effect on our consolidated financial statements.

## NOTE 2 FINANCIAL INSTRUMENTS

### FINANCIAL INSTRUMENTS AND OTHER INVENTORY POSITIONS

Financial instruments and other inventory positions owned and

financial instruments and other inventory positions sold but not yet purchased were comprised of the following:

FINANCIAL INSTRUMENTS AND OTHER INVENTORY POSITIONS				
IN MILLIONS NOVEMBER 30	Owned		Sold But Not Yet Purchased	
	2005	2004	2005	2004
Mortgages, mortgage-backed and real estate inventory positions	\$ 62,216	\$ 43,831	\$ 63	\$ 246
Corporate equities	33,426	26,772	21,018	23,019
Corporate debt and other	30,182	24,948	8,997	10,988
Government and agencies	30,079	29,829	64,743	46,697
Derivatives and other contractual agreements	18,045	17,459	15,560	15,242
Certificates of deposit and other money market instruments	3,490	1,629	196	89
	\$177,438	\$144,468	\$110,577	\$ 96,281

#### STOCK INCENTIVE PLAN

The Stock Incentive Plan ("SIP") has provisions similar to the 1994 Plan, the 1996 Plan and the EIP, and authorization from the Board of Directors to issue up to 10.0 million shares of Common Stock that may be subject to awards. At November 30, 2005 awards with respect to 2.3 million shares of Common Stock have been made under the SIP of which 2.3 million are outstanding.

#### 1999 LONG-TERM INCENTIVE PLAN

The 1999 Neuberger Berman Inc. Long-Term Incentive Plan (the "LTIP") provided for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of Common Stock that may be issued under the LTIP may not exceed 7.7 million. At November 30, 2005, awards with respect to approximately 6.7 million shares of Common Stock have been made under the LTIP, of which approximately 3.7 million restricted shares, RSUs and stock options are outstanding and 3.0 million have been converted to freely transferable Common Stock.

#### 1999 DIRECTORS STOCK INCENTIVE PLAN

The 1999 Neuberger Berman Inc. Directors Stock Incentive Plan (the "DSIP") provided for the grant of stock options or restricted stock to non-employee members of Neuberger's board of directors. Non-employee directors could elect to exchange a portion of their annual cash retainer paid by Neuberger for services rendered as a director for

restricted stock. At November 30, 2004, awards with respect to approximately 62,000 shares have been made under the DSIP of which 62,000 shares have been converted to freely transferable Common Stock. We do not intend to grant additional awards from the DSIP.

#### RESTRICTED STOCK UNITS

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with the RSU awards. For awards granted prior to 2004, we measure compensation cost for RSUs based on the market value of our Common Stock at the grant date in accordance with SFAS 123. For awards granted beginning in 2004 we measure compensation cost based on the market value of our Common Stock at the grant date and do not count for sale restrictions subsequent to the vesting date in accordance with our adoption of SFAS 123 on a prospective basis. RSU grants for each of the years presented contain selling restrictions subsequent to the vesting date. We amortize the RSU awards over the applicable vesting periods. RSU awards made to employees have various vesting requirements and generally convert to unrestricted freely transferable Common Stock five years from the grant date. We accrue a dividend equivalent to the RSU outstanding (in the form of additional RSUs), based on dividends declared on our Common Stock.

The following table summarizes RSUs outstanding under stock-based incentive plans:

RESTRICTED STOCK UNITS			
	2005	2004	2003
Balance, beginning of year	64,242,393	64,343,313	64,343,313
Granted	13,965,142	14,899,012	14,899,012
Canceled	(1,512,954)	(1,276,002)	(1,276,002)
Exchanged for stock without restrictions	(16,485,744)	(13,723,930)	(13,723,930)
Balance, end of year	60,208,837	64,242,393	64,343,313
Shares held in RSU Trust	(34,558,884)	(38,861,068)	(38,861,068)
RSUs outstanding, net of shares held in RSU trust	25,649,953	25,381,325	25,482,245

(1) Includes approximately 1.7 million RSUs granted in 2003 related to our acquisition of Neuberger. See Note 5 to the Consolidated Financial Statements for additional information.

Of the RSUs outstanding at November 30, 2005, approximately 36 million were amortized and included in basic and diluted earnings per share, approximately 10 million will be amortized during 2006, and the remainder will be amortized subsequent to November 30, 2006. See Note 11 to the Consolidated Financial Statements for additional information.

Included in the previous table are PSUs awarded to certain senior officers prior to 2004. The number of PSUs that may be earned is dependent on achieving certain performance levels within predetermined

performance periods. During the performance period, PSUs are accounted for as variable awards. At the end of a performance period, any PSUs earned will convert one-for-one to RSUs that will vest over three or more years. At November 30, 2005, approximately 6.0 million PSUs had been awarded, of which 6.0 million remained outstanding subject to vesting and transfer restrictions. The compensation cost for the RSUs payable in satisfaction of PSUs is accrued over the performance and vesting periods.

## MERGERS & ACQUISITIONS



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2006, in conformity with *U.S. generally accepted accounting principles*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2007 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

New York, New York  
February 13, 2007

# CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2006	2005	2004
<b>REVENUES</b>			
Principal transactions	\$ 9,802	\$ 7,811	\$ 5,699
Investment banking	3,160	2,894	2,188
Commissions	2,050	1,728	1,537
Interest and dividends	30,284	19,043	11,032
Asset management and other	1,413	944	794
Total revenues	46,709	32,420	21,250
Interest expense	29,126	17,790	9,674
Net revenues	17,583	14,630	11,576
<b>NON-INTEREST EXPENSES</b>			
Compensation and benefits	8,669	7,213	5,730
Technology and communications	974	834	764
Brokerage, clearance and distribution fees	629	548	488
Occupancy	539	490	421
Professional fees	364	282	252
Business development	301	234	211
Other	202	200	192
Total non-personnel expenses	3,009	2,588	2,328
Total non-interest expenses	11,678	9,801	8,058
Income before taxes and cumulative effect of accounting change	5,905	4,829	3,518
Provision for income taxes	1,945	1,569	1,125
Dividends on trust preferred securities	—	—	24
Income before cumulative effect of accounting change	3,960	3,260	2,369
Cumulative effect of accounting change	47	—	—
Net income	\$ 4,007	\$ 3,260	\$ 2,369
Net income applicable to common stock	\$ 3,941	\$ 3,191	\$ 2,297
Earnings per basic share:			
Before cumulative effect of accounting change	\$ 7.17	\$ 5.74	\$ 4.18
Cumulative effect of accounting change	0.09	—	—
Earnings per basic share	\$ 7.26	\$ 5.74	\$ 4.18
Earnings per diluted share:			
Before cumulative effect of accounting change	\$ 6.73	\$ 5.43	\$ 3.95
Cumulative effect of accounting change	0.08	—	—
Earnings per diluted share	\$ 6.81	\$ 5.43	\$ 3.95
Dividends paid per common share	\$ 0.48	\$ 0.40	\$ 0.32

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

IN MILLIONS NOVEMBER 30	2006	2005
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,987	\$ 4,900
Cash and securities segregated and on deposit for regulatory and other purposes	6,091	5,744
Financial instruments and other inventory positions owned: (includes \$42,600 in 2006 and \$36,369 in 2005 pledged as collateral)	226,596	177,438
Securities received as collateral	6,099	4,975
Collateralized agreements:		
Securities purchased under agreements to resell	117,490	106,209
Securities borrowed	101,567	78,455
Receivables:		
Brokers, dealers and clearing organizations	7,449	7,454
Customers	18,470	12,887
Others	2,052	1,302
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$1,925 in 2006 and \$1,448 in 2005)	3,269	2,885
Other assets	5,113	4,558
Identifiable intangible assets and goodwill (net of accumulated amortization of \$293 in 2006 and \$257 in 2005)	3,362	3,256
<b>Total assets</b>	<b>\$503,545</b>	<b>\$410,063</b>

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**

(continued)

IN MILLIONS, EXCEPT SHARE DATA  
NOVEMBER 30

	2006	2005
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Short-term borrowings and current portion of long-term borrowings (including \$3,783 in 2006 and \$0 in 2005 at fair value)	\$ 20,638	\$ 11,351
Financial instruments and other inventory positions sold but not yet purchased	125,960	110,577
Obligation to return securities received as collateral	6,099	4,975
Collateralized financings:		
Securities sold under agreements to repurchase	133,547	116,155
Securities loaned	17,883	13,154
Other secured borrowings	19,028	23,116
Payables:		
Brokers, dealers and clearing organizations	2,217	1,870
Customers	41,695	32,143
Accrued liabilities and other payables	14,697	10,962
Deposits at banks	21,412	15,067
Long-term borrowings (including \$11,025 in 2006 and \$0 in 2005 at fair value)	81,178	53,899
Total liabilities	484,354	393,269
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock	1,095	1,095
Common stock, \$0.10 par value <sup>(1)</sup> :		
Shares authorized: 1,200,000,000 in 2006 and 2005;		
Shares issued: 609,832,302 in 2006 and 605,337,946 in 2005;		
Shares outstanding: 533,368,195 in 2006 and 542,874,206 in 2005	61	61
Additional paid-in capital <sup>(1)</sup>	8,727	6,283
Accumulated other comprehensive loss, net of tax	(15)	(16)
Retained earnings	15,857	12,198
Other stockholders' equity, net	(1,712)	765
Common stock in treasury, at cost <sup>(1)</sup> : 76,464,107 shares in 2006 and 62,463,740 shares in 2005	(4,822)	(3,592)
Total common stockholders' equity	18,096	15,699
Total stockholders' equity	19,191	16,794
Total liabilities and stockholders' equity	\$503,545	\$410,063

<sup>(1)</sup> 2005 balances and share amounts have been retrospectively adjusted to give effect for the 2-for-1 common stock split, effected in the form of a 100% stock dividend, which became effective April 28, 2006.

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004
<b>PREFERRED STOCK</b>			
5.94% Cumulative, Series C:			
Beginning and ending balance	\$ 250	\$ 250	\$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	—	250	250
Redemptions	—	(250)	—
Ending balance	—	—	250
6.50% Cumulative, Series F:			
Beginning and ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning balance	300	300	—
Issuances	—	—	300
Ending balance	300	300	300
Total preferred stock, ending balance	1,095	1,095	1,345
<b>COMMON STOCK, PAR VALUE \$0.10 PER SHARE</b>			
Beginning balance	61	61	59
Other Issuances	—	—	2
Ending balance	61	61	61
<b>ADDITIONAL PAID-IN CAPITAL</b>			
Beginning balance	6,283	5,834	6,133
Reclass from Common Stock Issuable and Deferred Stock Compensation under SFAS 123(R)	2,275	—	—
RSUs exchanged for Common Stock	(647)	184	135
Employee stock-based awards	(881)	(760)	(585)
Tax benefit from the issuance of stock-based awards	836	1,005	468
Neuberger final purchase price adjustment	—	—	(307)
Amortization of RSUs, net	804	—	—
Other, net	57	20	(10)
Ending balance	8,727	6,283	5,834
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Beginning balance	(16)	(19)	(16)
Translation adjustment, net <sup>(1)</sup>	1	3	(3)
Ending balance	(15)	(16)	(19)

<sup>(1)</sup> Net of income taxes of \$2 in 2006, \$1 in 2005 and \$(2) in 2004.

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(continued)

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005	2004
<b>RETAINED EARNINGS</b>			
Beginning balance	\$12,198	\$ 9,240	\$ 7,129
Cumulative effect of accounting changes	(6)	—	—
Net income	4,007	3,260	2,369
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	—	(9)	(18)
6.50% Cumulative, Series F Preferred Stock	(22)	(22)	(23)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(18)	(12)	(5)
Common Stock	(276)	(233)	(186)
Ending balance	15,857	12,198	9,240
<b>COMMON STOCK ISSUABLE</b>			
Beginning balance	4,548	3,874	3,353
Reclass to Additional Paid-In Capital under SFAS 123(R)	(4,548)	—	—
RSUs exchanged for Common Stock	—	(832)	(585)
Deferred stock awards granted	—	1,574	1,182
Other, net	—	(68)	(76)
Ending balance	—	4,548	3,874
<b>COMMON STOCK HELD IN RSU TRUST</b>			
Beginning balance	(1,510)	(1,353)	(852)
Employee stock-based awards	(755)	(676)	(876)
RSUs exchanged for Common Stock	587	549	401
Other, net	(34)	(30)	(26)
Ending balance	(1,712)	(1,510)	(1,353)
<b>DEFERRED STOCK COMPENSATION</b>			
Beginning balance	(2,273)	(1,780)	(1,470)
Reclass to Additional Paid-In Capital under SFAS 123(R)	2,273	—	—
Deferred stock awards granted	—	(1,574)	(1,182)
Amortization of RSUs, net	—	988	773
Other, net	—	93	99
Ending balance	—	(2,273)	(1,780)
<b>COMMON STOCK IN TREASURY, AT COST</b>			
Beginning balance	(3,592)	(2,282)	(2,208)
Repurchases of Common Stock	(2,678)	(2,994)	(1,693)
Shares reacquired from employee transactions	(1,003)	(1,163)	(574)
RSUs exchanged for Common Stock	60	99	49
Employee stock-based awards	2,391	2,748	2,144
Ending balance	(4,822)	(3,592)	(2,282)
Total stockholders' equity	\$19,191	\$16,794	\$14,920

See Notes to Consolidated Financial Statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS YEAR ENDED NOVEMBER 30	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,007	\$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	514	426
Deferred tax benefit	(60)	(502)
Tax benefit from the issuance of stock-based awards	—	1,005
Non-cash compensation	1,706	1,055
Cumulative effect of accounting change	(47)	—
Other adjustments	3	173
Net change in:		
Cash and securities segregated and on deposit for regulatory and other purposes	(347)	(1,659)
Financial instruments and other inventory positions owned	(46,102)	(36,652)
Resale agreements, net of repurchase agreements	6,111	(475)
Securities borrowed, net of securities loaned	(18,383)	(5,165)
Other secured borrowings	(4,088)	11,495
Receivables from brokers, dealers and clearing organizations	5	(4,054)
Receivables from customers	(5,583)	354
Financial instruments and other inventory positions sold but not yet purchased	15,224	14,156
Payables to brokers, dealers and clearing organizations	347	165
Payables to customers	9,552	4,669
Accrued liabilities and other payables	2,032	(801)
Other receivables and assets	(1,267)	345
Net cash used in operating activities	(36,376)	(12,205)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, equipment and leasehold improvements, net	(586)	(409)
Business acquisitions, net of cash acquired	(206)	(38)
Net cash used in investing activities	(792)	(447)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Derivative contracts with a financing element	159	140
Tax benefit from the issuance of stock-based awards	836	—
Issuance of short-term borrowings, net	4,819	84
Deposits at banks	6,345	4,717
Issuance of long-term borrowings	48,115	23,705
Principal payments of long-term borrowings, including the current portion of long-term borrowings	(19,636)	(14,233)
Issuance of common stock	119	230
Issuance of treasury stock	518	1,015
Purchase of treasury stock	(2,678)	(2,994)
(Retirement) issuance of preferred stock	—	(250)
Dividends paid	(342)	(302)
Net cash provided by financing activities	38,255	12,112
Net change in cash and cash equivalents	1,087	(540)
Cash and cash equivalents, beginning of period	4,900	5,440
Cash and cash equivalents, end of period	\$ 5,987	\$ 4,900

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION (IN MILLIONS):

Interest paid totaled \$28,684, \$17,893 and \$9,534 in 2006, 2005 and 2004, respectively.

Income taxes paid totaled \$1,037, \$789 and \$638 in 2006, 2005 and 2004, respectively.

See Notes to Consolidated Financial Statements.

## NOTE 14 EARNINGS PER SHARE

Earnings per share was calculated as follows:

EARNINGS PER SHARE			
IN MILLIONS, EXCEPT PER SHARE DATA YEAR ENDED NOVEMBER 30	2006	2005	2004
<b>NUMERATOR:</b>			
Net income	\$ 4,007	\$ 3,260	\$ 2,369
Preferred stock dividends	66	69	72
Numerator for basic earnings per share—net income applicable to common stock	\$ 3,941	\$ 3,191	\$ 2,297
<b>DENOMINATOR:</b>			
Denominator for basic earnings per share—weighted-average common shares	543.0	556.3	549.4
Effect of dilutive securities:			
Employee stock options	29.1	25.4	27.6
Restricted stock units	6.3	5.5	4.5
Dilutive potential common shares	35.4	30.9	32.1
Denominator for diluted earnings per share—weighted-average common and dilutive potential common shares <sup>(1)</sup>	578.4	587.2	581.5
Basic earnings per share	\$ 7.26	\$ 5.74	\$ 4.18
Diluted earnings per share	\$ 6.81	\$ 5.43	\$ 3.95
	4.4	8.7	4.1

<sup>(1)</sup> Anti-dilutive options and restricted stock units excluded from the calculations of diluted earnings per share

On April 5, 2006, our Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend that was effected on April 28, 2006. See Note 12, "Stockholders' Equity," for additional information about the stock split.

## NOTE 15 SHARE-BASED EMPLOYEE INCENTIVE PLANS

We adopted the fair value recognition provisions for share-based awards pursuant to SFAS 123(R) effective as of the beginning of the 2006 fiscal year. See Note 1, "Summary of Significant Accounting Policies—Accounting and Regulatory Developments" for a further discussion.

We sponsor several share-based employee incentive plans. Amortization of compensation costs for grants awarded under these plans was approximately \$1,007 million, \$1,055 million and \$800 million during 2006, 2005 and 2004, respectively. Not included in the \$1,007 million of 2006 amortization expense is \$699 million of stock awards granted to retirement eligible employees in December 2006, which were accrued as compensation expense in fiscal 2006. The total income tax benefit recognized in the Consolidated Statement of Income associated with the above amortization expense was \$421 million, \$457 million and \$345 million during 2006, 2005 and 2004, respectively.

At November 30, 2006, unrecognized compensation cost related to nonvested stock option and RSU awards totaled \$1.8 billion. The cost of these non-vested awards is expected to be recognized over a weighted-average period of approximately 4.4 years.

Below is a description of our share-based employee incentive compensation plans.

## SHARE-BASED EMPLOYEE INCENTIVE PLANS

We sponsor several share-based employee incentive plans. The total number of shares of common stock remaining available for future awards under these plans at November 30, 2006, was 42.2 million (not including shares that may be returned to the Stock Incentive Plan as described below, but including an additional 0.4 million shares authorized for issuance under the 1994 Plan that have been reserved solely for issuance in respect of dividends on outstanding awards under this plan). In connection with awards made under our share-based employee incentive plans, we are authorized to issue shares of common stock held in treasury or newly-issued shares.

**1994 and 1996 Management Ownership Plans and Employee Incentive Plan** The Lehman Brothers Holdings Inc. 1994 Management Ownership Plan (the "1994 Plan"), the Lehman Brothers Holdings Inc. 1996 Management Ownership Plan (the "1996 Plan"), and the Lehman Brothers Holdings Inc. Employee

**Form 10-K**

**Commission File Number 1-9466**

(Exact Name of Registrant as Specified in its Charter)

**10019**  
(Zip Code)

Registrant's telephone number, including area code: (212) 526-7000

Securities registered pursuant to Section 12(b) of the Act:

[illegible]

**Securities registered pursuant to Section 12(g) of the Act: None**

**LEHMAN BROTHERS HOLDINGS INC.**

**AVAILABLE INFORMATION**

Lehman Brothers Holdings Inc ("Holdings") files annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission ("SEC"). You may read and copy any document Holdings files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, U.S.A. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330 (or 1-202-551-8090). The SEC maintains an internet site that contains annual, quarterly and current reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. Holdings' electronic SEC filings are available to the public at <http://www.sec.gov>.

Holdings' public internet site is <http://www.lehman.com>. Holdings makes available free of charge through its internet site, via a link to the SEC's internet site at <http://www.sec.gov>, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Holdings also makes available through its internet site, via a link to the SEC's internet site, statements of beneficial ownership of Holdings' equity securities filed by its directors, officers, 10% or greater shareholders and others under Section 16 of the Exchange Act.

In addition, Holdings currently makes available on <http://www.lehman.com> its most recent annual report on Form 10-K, its quarterly reports on Form 10-Q for the current fiscal year, its most recent proxy statement and its most recent annual report to stockholders, although in some cases these documents are not available on that site as soon as they are available on the SEC's site.

Holdings also makes available on <http://www.lehman.com> (i) its Corporate Governance Guidelines, (ii) its Code of Ethics (including any waivers therefrom granted to executive officers or directors) and (iii) the charters of the Audit, Compensation and Benefits, and Nominating and Corporate Governance Committees of its Board of Directors. These documents are also available in print without charge to any person who requests them by writing or telephoning:

Lehman Brothers Holdings Inc.  
Office of the Corporate Secretary  
1271 Avenue of the Americas  
42<sup>nd</sup> Floor  
New York, New York 10019, U.S.A.  
1-212-526-0858

In order to view and print the documents referred to above (which are in the .PDF format) on Holdings' internet site, you will need to have installed on your computer the Adobe® Acrobat® Reader® software. If you do not have Adobe Acrobat, a link to Adobe Systems Incorporated's internet site, from which you can download the software, is provided.

"ECAPS", "LehmanLive", "RANGERS" and "SUNS" are registered trademarks or service marks of Lehman Brothers Holdings Inc. in the United States and/or other countries. All other marks are the property of their respective owners.

## LEHMAN BROTHERS HOLDINGS INC.

***Exposure to Reputational Risks Could Impact the Value of Our Brand.*** Our reputation is critical in maintaining our relationships with clients, investors, regulators and the general public, and is a key focus in our risk management efforts. In recent years, there have been a number of highly publicized cases involving fraud, conflicts of interest or other misconduct by employees in the financial services industry, and we run the risk that misconduct by our employees could occur. Misconduct by employees could include binding Lehman Brothers to transactions that exceed authorized limits or present unacceptable risks, or hiding from Lehman Brothers unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. It is not always possible to deter employee misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. In addition, in certain circumstances our reputation could be damaged by activities of our clients in which we participate, or of hedge funds or other entities in which we invest, over which we have little or no control.

***Potential Conflicts of Interest Are Increasing.*** As we have expanded the scope of our businesses and our client base, we increasingly have to address potential conflicts of interest, including those relating to our proprietary activities. For example, conflicts may arise between our position as a financial advisor in a merger transaction and a principal investment we hold in one of the parties to the transaction. In addition, hedge funds and private equity funds are an increasingly important portion of our client base, and also compete with us in a number of our businesses. In addition, the SEC, FINRA, other federal and state regulators and regulators outside the U.S., including in the U.K. and Japan, have increased their scrutiny of potential conflicts of interest. We have extensive procedures and controls that are intended to ensure that any potential conflicts of interest are appropriately addressed. However, properly dealing with conflicts of interest is complex and difficult, and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with conflicts of interest and, it is possible that potential or perceived conflicts could give rise to litigation or enforcement actions.

### **Competitive Environment**

All aspects of our business are highly competitive. Our competitive success depends on many factors, including our reputation, the quality of our services and advice, intellectual capital, product innovation, execution ability, pricing, sales efforts, and the talent of our personnel. Many of our competitors have greater capital resources and greater geographic reach than we do, which enhances their competitive positions.

***We Face Increased Competition Due to a Trend Toward Consolidation.*** In recent years, there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share. These abilities have resulted in pricing pressure in our businesses. We have experienced intense price competition in some of our businesses in recent years. For example, equity and debt underwriting and trading spreads and fees for lending and other activities have been under competitive pressure for a number of years.

***Our Revenues May Decline Due to Competition from Alternative Trading Systems.*** Securities and futures transactions are now being conducted through the internet and other alternative, non-traditional trading systems, and it appears that the trend toward alternative trading systems will continue and probably accelerate. A dramatic increase in computer-based or other electronic trading may adversely affect our commission and trading revenues, including in our specialist business. The NYSE's adoption of its hybrid market for trading securities may increase pressure on our Equities business as customers execute more of their NYSE-related trades electronically. We have invested significant resources into the development of electronic trading systems and expect to continue to do so, but there is no assurance that the revenues generated by these systems will yield an adequate return on our investment, particularly given the relatively lower commissions arising from electronic trades.

***Our Ability to Retain Our Key Employees is Critical to the Success of Our Business.*** Our people are our most important resource. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract top talent and retain and motivate our existing employees while managing compensation costs.

LEHMAN BROTHERS HOLDINGS INC.

ITEM 6. SELECTED FINANCIAL DATA

	As of or for the Year Ended November 30,				
	2007	2006	2005	2004	2003
<b>Consolidated Statement of Income (in millions)</b>					
Total revenues	\$ 59,003	\$ 46,709	\$ 32,420	\$ 21,250	\$ 17,287
Interest expense	39,746	29,126	17,790	9,674	8,640
Net revenues	19,257	17,583	14,630	11,576	8,647
Non-interest expenses:					
Compensation and benefits	9,494	8,669	7,213	5,730	4,318
Non-personnel expenses <sup>(1)</sup>	3,750	3,009	2,588	2,309	1,716
Real estate reconfiguration charge	—	—	—	19	77
Total non-interest expenses	13,244	11,678	9,801	8,058	6,111
Income before taxes and cumulative effect of accounting change	6,013	5,905	4,829	3,518	2,536
Provision for income taxes	1,821	1,945	1,569	1,125	765
Dividends on trust preferred securities <sup>(2)</sup>	—	—	—	24	72
Income before cumulative effect of accounting change	4,192	3,960	3,260	2,369	1,699
Cumulative effect of accounting change	—	47	—	—	—
Net income	\$ 4,192	\$ 4,007	\$ 3,260	\$ 2,369	\$ 1,699
Net income applicable to common stock	\$ 4,125	\$ 3,941	\$ 3,191	\$ 2,297	\$ 1,649
<b>Consolidated Statement of Financial Condition (in millions)</b>					
Total assets	\$691,063	\$503,545	\$410,063	\$357,168	\$312,061
Net assets <sup>(3) (10)</sup>	372,959	268,936	211,424	175,221	163,182
Long-term borrowings <sup>(2) (4)</sup>	123,150	81,178	53,899	49,365	35,885
Preferred securities subject to mandatory redemption <sup>(2)</sup>	—	—	—	—	1,310
Total stockholders' equity	22,490	19,191	16,794	14,920	13,174
Tangible equity capital <sup>(5) (10)</sup>	23,103	18,567	15,564	12,636	10,681
Total long-term capital <sup>(6)</sup>	145,640	100,369	70,693	64,285	50,369
<b>Per Common Share Data (in millions, except per share amounts)<sup>(7)</sup></b>					
Earnings per share:					
Basic	\$ 7.63	\$ 7.26	\$ 5.74	\$ 4.18	\$ 3.36
Diluted	\$ 7.26	\$ 6.81	\$ 5.43	\$ 3.95	\$ 3.17
Weighted average common shares outstanding:					
Basic	540.6	543.0	556.3	549.4	491.3
Diluted	568.3	578.4	587.2	581.5	519.7
Dividends declared and paid per common share	\$ 0.60	\$ 0.48	\$ 0.40	\$ 0.32	\$ 0.24
Book value per common share <sup>(8)</sup>	\$ 39.44	\$ 33.87	\$ 28.75	\$ 24.66	\$ 22.09
<b>Selected Data</b>					
Leverage ratio <sup>(9)</sup>	30.7x	26.2x	24.4x	23.9x	23.7x
Net leverage ratio <sup>(10)</sup>	16.1x	14.5x	13.6x	13.9x	15.3x
Employees	28,556	25,936	22,919	19,579	16,188
Assets under management (in billions)	\$ 282	\$ 225	\$ 175	\$ 137	\$ 120
<b>Financial Ratios</b>					
Compensation and benefits/net revenues	49.3%	49.3%	49.3%	49.5%	49.9%
Pre-tax margin	31.2%	33.6%	33.0%	30.4%	29.3%
Return on average common stockholders' equity <sup>(11)</sup>	20.8%	23.4%	21.6%	17.9%	18.2%
Return on average tangible common stockholders' equity <sup>(11)</sup>	25.7%	29.1%	27.8%	24.7%	19.2%

**LEHMAN BROTHERS HOLDINGS INC.**  
**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**2007 vs. 2006.** Asset management and other revenues rose 23% in 2007 from 2006. The growth in 2007 primarily reflected higher asset management fees attributable to the growth in AUM and management and incentive fees.

**2006 vs. 2005.** Asset management and other revenues rose 50% in 2006 from 2005. The growth in 2006 primarily reflected higher asset management fees attributable to the growth in AUM, a transition to fee-based rather than commission-based pricing for certain clients, as well as higher private equity management and incentive fees.

**Non-Interest Expenses**

In millions	Year Ended November 30,			Percent Change	
	2007	2006	2005	2007/ 2006	2006/ 2005
Compensation and benefits	\$ 9,494	\$ 8,669	\$7,213	10%	20%
Non-personnel expenses:					
Technology and communications	1,145	974	834	18	17
Brokerage, clearance and distribution fees	859	629	548	37	15
Occupancy	641	539	490	19	10
Professional fees	466	364	282	28	29
Business development	378	301	234	26	29
Other	261	202	200	29	1
Total non-personnel expenses	\$ 3,750	\$ 3,009	\$2,588	25%	16%
Total non-interest expenses	\$13,244	\$11,678	\$9,801	13%	19%
Compensation and benefits/Net revenues	49.3%	49.3%	49.3%		
Non-personnel expenses/Net revenues	19.5%	17.1%	17.7%		

Non-interest expenses were \$13.2 billion, \$11.7 billion and \$9.8 billion in 2007, 2006 and 2005, respectively. A substantial portion of our non-interest expenses is compensation-related, and a significant portion of our compensation expense represents discretionary bonuses which are impacted by levels of business activity and the structure of our share-based compensation programs. Remaining non-interest expense categories are largely variable, and are expected to change over time with revenue levels, business activity mix and employee headcount levels.

**Compensation and benefits.** Compensation and benefits totaled \$9.5 billion, \$8.7 billion and \$7.2 billion in 2007, 2006, and 2005, respectively. Compensation and benefits expense includes both fixed and variable components. Fixed compensation consists primarily of salaries, benefits and amortization of previous years' deferred equity awards. Variable compensation consists primarily of incentive compensation and commissions. Compensation and benefits expense as a percentage of net revenues was 49.3% for 2007, 2006 and 2005. Employees totaled approximately 28,600, 25,900 and 22,900 at November 30, 2007, 2006 and 2005, respectively.

**2007 vs. 2006.** Headcount increased 10% in 2007 from 2006, reflecting the increased levels of business activity across the Firm as well as our continued investments in the growth of the franchise, particularly in non-U.S. regions. In connection with the announced restructuring of the Firm's global residential mortgage origination business, employee levels were reduced by approximately 1,900 in the 2007 fiscal year. Fixed compensation in 2007 was 20% greater than 2006 as result of the overall increase in employees. Fixed compensation was approximately \$4.6 billion and \$3.9 billion in 2007 and 2006, respectively. The 2007 fixed compensation amount of approximately \$4.6 billion includes approximately \$1.3 billion of amortization expense for stock awards granted in prior periods. Variable compensation was 1% greater in 2007 than 2006.

**2006 vs. 2005.** Headcount increased 13% in 2006 from 2005, reflecting the increased levels of business activity across the Firm as well as our continued investments to grow the franchise, particularly in non-U.S. regions. Correlated to the increase in employees, fixed compensation in 2006 was 21% greater than 2005. Fixed compensation was approximately \$3.9 billion and \$3.2 billion in 2006 and 2005, respectively. The 2006 fixed compensation amount of approximately \$3.9 billion includes approximately \$1.0 billion of amortization expense for stock awards granted in prior periods. The increased level of revenue from 2005 to 2006 resulted in comparatively higher incentive compensation expense. Variable compensation was 20% greater in 2006 than 2005.

**Non-personnel expenses.** Non-personnel expenses totaled \$3.8 billion, \$3.0 billion and \$2.6 billion in 2007, 2006 and 2005, respectively. Non-personnel expenses as a percentage of net revenues were 19.5%, 17.1%, and 17.7% in 2007, 2006, and 2005, respectively.

**2007 vs. 2006.** Technology and communications expenses rose 18% in 2007 from 2006, reflecting increased costs from the continued expansion and development of our Investment Management platforms and infrastructure. Brokerage, clearance and distribution fees rose 37% in 2007 from 2006, primarily due to higher transaction volumes in Equities Capital Markets

## LEHMAN BROTHERS HOLDINGS INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations

and Investment Management products. Occupancy expenses increased 19% in 2007 from 2006, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 27% in 2007 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees. In 2007, Other non-personnel expenses included approximately \$62 million associated with the restructuring of the Firm's global residential mortgage origination business.

2006 vs. 2005. Technology and communications expenses rose 17% in 2006 from 2005, reflecting increased costs from the continued expansion and development of our Capital Markets platforms and infrastructure. Brokerage, clearance and distribution fees rose 15% in 2006 from 2005, primarily due to higher transaction volumes in certain Capital Markets and Investment Management products. Occupancy expenses increased 10% in 2006 from 2005, primarily due to increased space requirements from the increased number of employees. Professional fees and business development expenses increased 29% in 2006 on higher levels of business activity and increased costs associated with recruiting, consulting and legal fees.

#### Income Taxes

The provision for income taxes totaled \$1.8 billion, \$1.9 billion and \$1.6 billion in 2007, 2006 and 2005, respectively. The provision for income taxes resulted in effective tax rates of 30.3%, 32.9% and 32.5% for 2007, 2006 and 2005, respectively. The decrease in the effective tax rate in 2007 compared to 2006 was primarily due to a more favorable mix of earnings, which resulted in lower tax expense from foreign operations as compared to the U.S. statutory rate. The increases in the effective tax rates in 2006 and 2005 compared with the prior years were primarily due to an increase in the level of pretax earnings, which minimizes the impact of certain tax benefit items, and in 2006 a net reduction in certain benefits from foreign operations, partially offset by a reduction in state and local taxes due to favorable audit settlements in 2006 and 2005.

#### Business Acquisitions, Business Dispositions and Strategic Investments

**Business Acquisitions.** During the fiscal year, we completed the business acquisitions listed below. As a result of these acquisitions, the additions to goodwill and intangible assets were approximately \$860 million.

- Eagle Energy Partners I, L.P., a Texas-based energy marketing and services company that manages and optimizes supply, transportation, transmission, load and storage portfolios on behalf of wholesale natural gas and power clients.
- Capital Crossing Bank, a state-chartered, FDIC-insured commercial bank that originates small business loans.
- A controlling interest in SkyPower Corp., a Toronto-based early stage wind and solar power generation development company. SkyPower Corp. is consolidated in our results of operations.
- The final contingent payment under a 2004 deferred transaction agreement was made for the remaining 50% of Lehman Brothers Alternative Investment Management ("LBAIM"), which manages fund of hedge fund portfolios and investment products for institutional and high-net-worth private clients. LBAIM was previously consolidated in Holdings' results of operations.
- Grange Securities Limited, a full service Australian broker-dealer specializing in fixed income products.
- LightPoint Capital Management LLC, a leveraged loan investment manager based in Chicago, Illinois, with approximately \$3.2 billion in AUM.
- The institutional equities business, including the institutional research group, of Brics Securities Limited, located in India.
- H.A. Schupf, a high net worth asset manager with approximately \$2.3 billion in AUM.
- Congress Life Insurance Company, a life insurance company with licenses in 43 U.S. states.
- Dartmouth Capital, a U.K.-based investment advisory firm with approximately \$340 million in assets under advisory.
- MNG Securities, an equity securities brokerage firm in Turkey.

A portion of the consideration paid to shareholders of certain entities described above consisted of shares of Holdings' common stock. For more information, see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds" in the Quarterly Reports on Form 10-Q for the quarters ended August 31, 2007 and May 31, 2007.

## LEHMAN BROTHERS HOLDINGS INC.

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external causes, whether deliberate, accidental or natural. Operational risk may arise from mistakes, intentional or otherwise, in the execution, confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted. Our businesses are highly dependent on our ability to daily process a large number of transactions across numerous and diverse markets in many currencies, and these transactions have become increasingly complex. Consequently, we rely heavily on our financial, accounting and other data processing systems. In recent years, we have substantially upgraded and expanded the capabilities of our data processing systems and other operating technology, and we expect that we will need to continue to upgrade and expand in the future to avoid disruption of, or constraints on, our operations.

The Operational Risk Management Department is responsible for implementing and maintaining our overall global operational risk management framework, which seeks to minimize these risks through assessing, reporting, monitoring and mitigating operational risks.

We have a company-wide business continuity plan (the "BCP"). The BCP objective is to ensure that we can continue critical operations with limited processing interruption in the event of a business disruption. The business continuity group manages our internal incident response process and develops and maintains continuity plans for critical business functions and infrastructure. This includes determining how vital business activities will be performed until normal processing capabilities can be restored. The business continuity group is also responsible for facilitating disaster recovery and business continuity training and preparedness for our employees.

#### Reputational and Other Risk

We recognize that maintaining our reputation among clients, investors, regulators and the general public is critical. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards.

Potential clients are screened through a multi-step process that begins with the individual business units and product groups. In screening clients, these groups undertake a comprehensive review of the client and its background and the potential transaction to determine, among other things, whether they pose any risks to our reputation. Potential transactions are screened by independent committees in the Firm, which are composed of senior members from various corporate divisions of the Company including members of the Division. These committees review the nature of the client and its business, the due diligence conducted by the business units and product groups and the proposed terms of the transaction to determine overall acceptability of the proposed transaction. In so doing, the committees evaluate the appropriateness of the transaction, including a consideration of ethical and social responsibility issues and the potential effect of the transaction on our reputation.

We are exposed to other risks having an ability to adversely impact our business. Such risks include legal, geopolitical, tax and regulatory risks that may come to bear due to changes in local laws, regulations, accounting standards or tax statutes. To assist in the mitigation of such risks, we monitor and review regulatory, statutory or legal proposals that could impact our businesses. See "Certain Factors Affecting Results of Operations" above and "Risk Factors" in Part I, Item 1A in this Form 10-K.

---

#### 2-for-1 Stock Split

---

On April 5, 2006, the stockholders of Holdings approved an increase in the Company's authorized shares of common stock to 1.2 billion from 600 million, and the Board of Directors approved a 2-for-1 common stock split, in the form of a stock dividend, for holders of record as of April 18, 2006, which was paid on April 28, 2006. On April 5, 2006, the Company's Restated Certificate of Incorporation was amended to effect the increase in authorized common shares.

---

#### Accounting and Regulatory Developments

---

The following summarizes accounting standards that have been issued during the periods covered by the Consolidated Financial Statements and the effect of adoption on our results of operations, if any, actual or estimated.

**SFAS 123(R).** In December 2004, the FASB issued SFAS 123(R), which establishes standards of accounting for transactions in which an entity exchanges its equity instruments for goods and services and focuses primarily on accounting

**LEHMAN BROTHERS HOLDINGS INC.**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

for transaction in which an entity obtains employee services in share-based payment transactions. Two key differences between SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS 123(R) relate to the attribution of compensation costs to reporting periods and accounting for award forfeitures. SFAS 123(R) generally requires the immediate expensing of equity-based awards granted to retirement-eligible employees or awards granted subject to substantive non-compete agreements be expensed over the non-compete period. SFAS 123(R) also requires expected forfeitures to be included in determining stock-based employee compensation expense. We adopted SFAS 123(R) as of the beginning of our 2006 fiscal year and recognized an after-tax gain of approximately \$47 million as the cumulative effect of a change in accounting principle attributable to the requirement to estimate forfeitures at the date of grant instead of recognizing them as incurred. For additional information, see Note 12, "Share-Based Employee Incentive Plans," to the Consolidated Financial Statements.

**SFAS 155.** In February 2006, the FASB issued SFAS 155, which permits an entity to measure at fair value any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. As permitted, we early adopted SFAS 155 in the first quarter of 2006. The effect of adoption resulted in a \$24 million after-tax (\$43 million pre-tax) decrease to opening retained earnings as of the beginning of our 2006 fiscal year, representing the difference between the fair value of these hybrid financial instruments and the prior carrying value as of November 30, 2005.

**SFAS 156.** In March 2006, the FASB issued SFAS 156, which permits entities to elect to measure servicing assets and servicing liabilities at fair value and report changes in fair value in earnings. As a result of adopting SFAS 156, we recognized an \$18 million after-tax (\$33 million pre-tax) increase to opening retained earnings in our 2006 fiscal year.

**SFAS 157.** In September 2006, the FASB issued SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value, outlines a fair value hierarchy based on inputs used to measure fair value and enhances disclosure requirements for fair value measurements. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

SFAS 157 also (i) nullifies the guidance in EITF No. 02-3, *Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3") that precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative was obtained from a quoted market price or other valuation technique incorporating observable inputs; (ii) clarifies that an issuer's credit standing should be considered when measuring liabilities at fair value; (iii) precludes the use of a liquidity or block discount when measuring instruments traded in an active market at fair value; and (iv) requires costs related to acquiring financial instruments carried at fair value to be included in earnings as incurred.

We elected to early adopt SFAS 157 at the beginning of 2007 fiscal year and we recorded the difference between the carrying amounts and fair values of (i) stand-alone derivatives and/or certain hybrid financial instruments measured using the guidance in EITF 02-3 on recognition of a trading profit at the inception of a derivative, and (ii) financial instruments that are traded in active markets that were measured at fair value using block discounts, as a cumulative-effect adjustment to opening retained earnings. As a result of adopting SFAS 157, we recognized a \$45 million after-tax (\$78 million pre-tax) increase to opening retained earnings. For additional information regarding our adoption of SFAS 157, see Note 4, "Fair Value of Financial Instruments," to the Consolidated Financial Statements.

**SFAS 158.** In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Retirement Plans* ("SFAS 158"), which requires an employer to recognize the over- or under-funded status of its defined benefit postretirement plans as an asset or liability in its Consolidated Statement of Financial Condition, measured as the difference between the fair value of the plan assets and the benefit obligation. For pension plans the benefit obligation is the projected benefit obligation while for other postretirement plans the benefit obligation is the accumulated postretirement obligation. Upon adoption, SFAS 158 requires an employer to recognize previously unrecognized actuarial gains and losses and prior service costs within Accumulated other comprehensive income/(loss) (net of tax), a component of Stockholders' equity. In accordance with the guidance in SFAS No. 158, we adopted this provision of the standard for the year ended November 30, 2007. The adoption of SFAS No. 158 reduced Accumulated other comprehensive income/(loss), by \$210 million after-tax (\$344 million pre-tax) at November 30, 2007.

**SFAS 159.** In February 2007, the FASB issued SFAS 159 which permits certain financial assets and financial liabilities to be measured at fair value, using an instrument-by-instrument election. The initial effect of adopting SFAS 159 must be accounted for as a cumulative-effect adjustment to opening retained earnings for the fiscal year in which we apply SFAS 159. Retrospective application of SFAS 159 to fiscal years preceding the effective date is not permitted.

We elected to early adopt SFAS 159 beginning in our 2007 fiscal year and to measure at fair value substantially all hybrid financial instruments not previously accounted for at fair value under SFAS No. 155, as well as certain deposit liabilities

**LEHMAN BROTHERS HOLDINGS INC.**

**Report of Independent Registered Public Accounting Firm**

**To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.**

We have audited Lehman Brothers Holdings Inc.'s (the "Company") internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial condition of the Company as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2007 of the Company and our report dated January 28, 2008 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

New York, New York  
January 28, 2008

**LEHMAN BROTHERS HOLDINGS INC.**

**Report of Independent Registered Public Accounting Firm**

**To The Board of Directors and Stockholders of Lehman Brothers Holdings Inc.**

We have audited the accompanying consolidated statement of financial condition of Lehman Brothers Holdings Inc. (the "Company") as of November 30, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lehman Brothers Holdings Inc. at November 30, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Lehman Brothers Holdings Inc.'s internal control over financial reporting as of November 30, 2007, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated January 28, 2008 expressed an unqualified opinion thereon.

*Ernst + Young LLP*

New York, New York  
January 28, 2008

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Income**

In millions, except per share data	Year Ended November 30,		
	2007	2006	2005
<b>Revenues</b>			
Principal transactions	\$ 9,197	\$ 9,802	\$ 7,811
Investment banking	3,903	3,160	2,894
Commissions	2,471	2,050	1,728
Interest and dividends	41,693	30,284	19,043
Asset management and other	1,739	1,413	944
Total revenues	59,003	46,709	32,420
Interest expense	39,746	29,126	17,790
Net revenues	19,257	17,583	14,630
<b>Non-Interest Expenses</b>			
Compensation and benefits	9,494	8,669	7,213
Technology and communications	1,145	974	834
Brokerage, clearance and distribution fees	859	629	548
Occupancy	641	539	490
Professional fees	466	364	282
Business development	378	301	234
Other	261	202	200
Total non-personnel expenses	3,750	3,009	2,588
Total non-interest expenses	13,244	11,678	9,801
Income before taxes and cumulative effect of accounting change	6,013	5,905	4,829
Provision for income taxes	1,821	1,945	1,569
Income before cumulative effect of accounting change	4,192	3,960	3,260
Cumulative effect of accounting change	—	47	—
Net income	\$ 4,192	\$ 4,007	\$ 3,260
Net income applicable to common stock	\$ 4,125	\$ 3,941	\$ 3,191
<b>Earnings per basic common share:</b>			
Before cumulative effect of accounting change	\$ 7.63	\$ 7.17	\$ 5.74
Cumulative effect of accounting change	—	0.09	—
Earnings per basic common share	\$ 7.63	\$ 7.26	\$ 5.74
<b>Earnings per diluted common share:</b>			
Before cumulative effect of accounting change	\$ 7.26	\$ 6.73	\$ 5.43
Cumulative effect of accounting change	—	0.08	—
Earnings per diluted common share	\$ 7.26	\$ 6.81	\$ 5.43
Dividends paid per common share	\$ 0.60	\$ 0.48	\$ 0.40

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Financial Condition**

In millions	November 30,	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 7,286	\$ 5,987
Cash and securities segregated and on deposit for regulatory and other purposes	12,743	6,091
Financial instruments and other inventory positions owned (includes \$63,499 in 2007 and \$42,600 in 2006 pledged as collateral)	313,129	226,596
Collateralized agreements:		
Securities purchased under agreements to resell	162,635	117,490
Securities borrowed	138,599	107,666
Receivables:		
Brokers, dealers and clearing organizations	11,005	7,449
Customers	29,622	18,470
Others	2,650	2,052
Property, equipment and leasehold improvements (net of accumulated depreciation and amortization of \$2,438 in 2007 and \$1,925 in 2006)	3,861	3,269
Other assets	5,406	5,113
Identifiable intangible assets and goodwill (net of accumulated amortization of \$340 in 2007 and \$293 in 2006)	4,127	3,362
<b>Total assets</b>	<b>\$691,063</b>	<b>\$503,545</b>

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Financial Condition—(Continued)**

In millions, except share data	November 30,	
	2007	2006
<b>Liabilities and Stockholders' Equity</b>		
Short-term borrowings and current portion of long-term borrowings (including \$9,035 in 2007 and \$6,064 in 2006 at fair value)	\$ 28,066	\$ 20,638
Financial instruments and other inventory positions sold but not yet purchased	149,617	125,960
Collateralized financings:		
Securities sold under agreements to repurchase	181,732	133,547
Securities loaned	53,307	23,982
Other secured borrowings (including \$9,149 in 2007 and \$0 in 2006 at fair value)	22,992	19,028
Payables:		
Brokers, dealers and clearing organizations	3,101	2,217
Customers	61,206	41,695
Accrued liabilities and other payables	16,039	14,697
Deposit liabilities at banks (including \$15,986 in 2007 and \$14,708 in 2006 at fair value)	29,363	21,412
Long-term borrowings (including \$27,204 in 2007 and \$11,025 in 2006 at fair value)	123,150	81,178
<b>Total liabilities</b>	<b>668,573</b>	<b>484,354</b>
Commitments and contingencies		
<b>Stockholders' Equity</b>		
Preferred stock	1,095	1,095
Common stock, \$0.10 par value:		
Shares authorized: 1,200,000,000 in 2007 and 2006;		
Shares issued: 612,882,506 in 2007 and 609,832,302 in 2006;		
Shares outstanding: 531,887,419 in 2007 and 533,368,195 in 2006	61	61
Additional paid-in capital <sup>(1)</sup>	9,733	8,727
Accumulated other comprehensive loss, net of tax	(310)	(15)
Retained earnings	19,698	15,857
Other stockholders' equity, net	(2,263)	(1,712)
Common stock in treasury, at cost <sup>(1)</sup> (80,995,087 shares in 2007 and 76,464,107 shares in 2006)	(5,524)	(4,822)
<b>Total common stockholders' equity</b>	<b>21,395</b>	<b>18,096</b>
<b>Total stockholders' equity</b>	<b>22,490</b>	<b>19,191</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$691,063</b>	<b>\$503,545</b>

<sup>(1)</sup> Balances and share amounts at November 30, 2006 reflect the April 28, 2006 2-for-1 common stock split, effected in the form of a 100% stock dividend.

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Changes in Stockholders' Equity**

In millions	Year Ended November 30,		
	2007	2006	2005
<b>Preferred Stock</b>			
5.94% Cumulative, Series C:			
Beginning and ending balance	\$ 250	\$ 250	\$ 250
5.67% Cumulative, Series D:			
Beginning and ending balance	200	200	200
7.115% Fixed/Adjustable Rate Cumulative, Series E:			
Beginning balance	--	--	250
Redemptions	--	--	(250)
Ending balance	--	--	--
6.50% Cumulative, Series F:			
Beginning and ending balance	345	345	345
Floating Rate (3% Minimum) Cumulative, Series G:			
Beginning and ending balance	300	300	300
Total preferred stock, ending balance	1,095	1,095	1,095
<b>Common Stock, Par Value \$0.10 Per Share</b>			
Beginning and ending balance	61	61	61
<b>Additional Paid-In Capital</b>			
Beginning balance	8,727	6,283	5,834
Reclass from Common Stock Issuable and Deferred			
Stock Compensation under SFAS No. 123(R)	--	2,275	--
RSUs exchanged for Common Stock	(580)	(647)	184
Employee stock-based awards	(832)	(881)	(760)
Tax benefit from the issuance of stock-based awards	434	836	1,005
Amortization of RSUs, net	1,898	804	--
Other, net	86	57	20
Ending balance	9,733	8,727	6,283
<b>Accumulated Other Comprehensive Income/(Loss), net of tax</b>			
Beginning balance	(15)	(16)	(19)
Translation adjustment, net <sup>(1)</sup>	(85)	1	3
Adoption of SFAS No. 158 <sup>(2)</sup>	(210)	--	--
Ending balance	\$ (310)	\$ (15)	\$ (16)

<sup>(1)</sup> Net of income tax benefit/(expense) of \$2 in 2007, (\$2) in 2006 and (\$1) in 2005.

<sup>(2)</sup> Net of income tax benefit of \$134.

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Changes in Stockholders' Equity—(Continued)**

In millions	Year Ended November 30,		
	2007	2006	2005
<b>Retained Earnings</b>			
Beginning balance	\$15,857	\$12,198	\$ 9,240
Cumulative effect of accounting changes <sup>(b)</sup>	67	(6)	—
Net income	4,192	4,007	3,260
Dividends declared:			
5.94% Cumulative, Series C Preferred Stock	(15)	(15)	(15)
5.67% Cumulative, Series D Preferred Stock	(11)	(11)	(11)
7.115% Fixed/Adjustable Rate Cumulative, Series E Preferred Stock	—	—	(9)
6.50% Cumulative, Series F Preferred Stock	(22)	(22)	(22)
Floating Rate (3% Minimum) Cumulative, Series G Preferred Stock	(19)	(18)	(12)
Common Stock	(351)	(276)	(233)
Ending balance	19,698	15,857	12,198
<b>Common Stock Issuable</b>			
Beginning balance	—	4,548	3,874
Reclass to Additional paid-in capital under SFAS 123(R)	—	(4,548)	—
RSUs exchanged for common stock	—	—	(832)
Deferred stock awards granted	—	—	1,574
Other, net	—	—	(68)
Ending balance	—	—	4,548
<b>Common Stock Held in RSU Trust</b>			
Beginning balance	(1,712)	(1,510)	(1,353)
Employee stock-based awards	(1,039)	(755)	(676)
RSUs exchanged for common stock	534	587	549
Other, net	(46)	(34)	(30)
Ending balance	(2,263)	(1,712)	(1,510)
<b>Deferred Stock Compensation</b>			
Beginning balance	—	(2,273)	(1,780)
Reclass to additional paid-in capital under SFAS 123(R)	—	2,273	—
Deferred stock awards granted	—	—	(1,574)
Amortization of RSUs, net	—	—	988
Other, net	—	—	93
Ending balance	—	—	(2,273)
<b>Common Stock In Treasury, at Cost</b>			
Beginning balance	(4,822)	(3,592)	(2,282)
Repurchases of common stock	(2,605)	(2,678)	(2,994)
Shares reacquired from employee transactions	(573)	(1,003)	(1,163)
RSUs exchanged for common stock	46	60	99
Employee stock-based awards	2,430	2,391	2,748
Ending balance	(5,524)	(4,822)	(3,592)
Total stockholders' equity	\$22,490	\$19,191	\$16,794

<sup>(b)</sup> The aggregate adoption impact of SFAS No. 157 and SFAS No. 159 are reflected for the year ended November 30, 2007. The aggregate adoption impact of SFAS No. 155 and SFAS No. 156 are reflected for the year ended November 30, 2006.

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Consolidated Statement of Cash Flows**

In millions	Year Ended November 30,		
	2007	2006	2005
<b>Cash Flows From Operating Activities</b>			
Net income	\$ 4,192	\$ 4,007	\$ 3,260
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	577	514	426
Non-cash compensation	1,791	1,706	1,055
Cumulative effect of accounting change	—	(47)	—
Deferred tax provision/(benefit)	418	(60)	(502)
Tax benefit from the issuance of stock-based awards	—	—	1,005
Other adjustments	(114)	3	173
Net change in:			
Cash and securities segregated and on deposit for regulatory and other purposes	(6,652)	(347)	(1,659)
Financial instruments and other inventory positions owned	(78,903)	(46,102)	(36,652)
Resale agreements, net of repurchase agreements	3,039	6,111	(475)
Securities borrowed, net of securities loaned	(1,608)	(18,383)	(5,165)
Other secured borrowings	3,964	(4,088)	11,495
Receivables from brokers, dealers and clearing organizations	(3,556)	5	(4,054)
Receivables from customers	(11,152)	(5,583)	354
Financial instruments and other inventory positions sold but not yet purchased	23,415	15,224	14,156
Payables to brokers, dealers and clearing organizations	884	347	165
Payables to customers	19,511	9,552	4,669
Accrued liabilities and other payables	302	2,032	(801)
Other receivables and assets and minority interests	(1,703)	(1,267)	345
Net cash used in operating activities	(45,595)	(36,376)	(12,205)
<b>Cash Flows From Investing Activities</b>			
Purchase of property, equipment and leasehold improvements, net	(966)	(586)	(409)
Business acquisitions, net of cash acquired	(965)	(206)	(38)
Proceeds from sale of business	233	—	—
Net cash used in investing activities	(1,698)	(792)	(447)
<b>Cash Flows From Financing Activities</b>			
Derivative contracts with a financing element	242	159	140
Tax benefit from the issuance of stock-based awards	434	836	—
Issuance of short-term borrowings, net	3,381	4,819	84
Deposit liabilities at banks	7,068	6,345	4,717
Issuance of long-term borrowings	86,302	48,115	23,705
Principal payments of long-term borrowings, including the current portion of long term borrowings	(46,255)	(19,636)	(14,233)
Issuance of common stock	84	119	230
Issuance of treasury stock	359	518	1,015
Purchase of treasury stock	(2,605)	(2,678)	(2,994)
Retirement of preferred stock	—	—	(250)
Dividends paid	(418)	(342)	(302)
Net cash provided by financing activities	48,592	38,255	12,112
Net change in cash and cash equivalents	1,299	1,087	(540)
Cash and cash equivalents, beginning of period	5,987	4,900	5,440
Cash and cash equivalents, end of period	\$ 7,286	\$ 5,987	\$ 4,900
<b>Supplemental Disclosure of Cash Flow Information (in millions):</b>			
Interest paid totaled \$39,454, \$28,684 and \$17,893 in 2007, 2006 and 2005, respectively.			
Income taxes paid totaled \$1,476, \$1,037 and \$789 in 2007, 2006 and 2005, respectively.			

See Notes to Consolidated Financial Statements.

**LEHMAN BROTHERS HOLDINGS INC.**  
**Notes to Consolidated Financial Statements**

**Stock Incentive Plan.** The SIP has a 10-year term ending in May 2015, with provisions similar to the previous plans. The SIP authorized the issuance of up to the total of (i) 95.0 million shares (20.0 million as originally authorized, plus an additional 75.0 million authorized by the stockholders of Holdings at its 2007 Annual Meeting), plus (ii) the 33.5 million shares authorized for issuance under the 1996 Plan and the EIP that remained unawarded upon their expiration, plus (iii) any shares subject to repurchase or forfeiture rights under the 1996 Plan, the EIP or the SIP that are reacquired by the Company, or the award of which is canceled, terminates, expires or for any other reason is not payable, plus (iv) any shares withheld or delivered pursuant to the terms of the SIP in payment of any applicable exercise price or tax withholding obligation. Awards with respect to 51.1 million shares of common stock have been made under the SIP as of November 30, 2007, 50.4 million of which are outstanding.

**1999 Long-Term Incentive Plan.** The 1999 Neuberger Beriman Inc. Long-Term Incentive Plan (the "LTIP") provides for the grant of restricted stock, restricted units, incentive stock, incentive units, deferred shares, supplemental units and stock options. The total number of shares of common stock that may be issued under the LTIP is 15.4 million. At November 30, 2007, awards with respect to approximately 13.7 million shares of common stock had been made under the LTIP, of which 3.2 million were outstanding.

**Restricted Stock Units**

Eligible employees receive RSUs, in lieu of cash, as a portion of their total compensation. There is no further cost to employees associated with RSU awards. RSU awards generally vest over two to five years and convert to unrestricted freely transferable common stock five years from the grant date. All or a portion of an award may be canceled if employment is terminated before the end of the relevant vesting period. We accrue dividend equivalents on outstanding RSUs (in the form of additional RSUs), based on dividends declared on our common stock.

For RSUs granted prior to 2004, we measured compensation cost based on the market value of our common stock at the grant date in accordance with APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, accordingly, a discount from the market price of an unrestricted share of common stock on the RSU grant date was not recognized for selling restrictions subsequent to the vesting date. For awards granted beginning in 2004, we measure compensation cost based on the market price of our common stock at the grant date less a discount for sale restrictions subsequent to the vesting date in accordance with SFAS 123 and SFAS 123(R). The fair value of RSUs subject to post-vesting date sale restrictions are generally discounted by three to eight percent for each year based upon the duration of the post-vesting restriction. These discounts are based on market-based studies and academic research on securities with restrictive features. RSUs granted in each of the periods presented contain selling restrictions subsequent to a vesting date.

The fair value of RSUs converted to common stock without restrictions for the year ended November 30, 2007 was \$1.2 billion. Compensation costs previously recognized and tax benefits recognized in equity upon issuance of these awards were approximately \$760 million.

The following table summarizes RSU activity for 2007 and 2006:

	Unamortized	Amortized	Total Number of RSUs	Weighted Average Grant Date Fair Value
Balance, November 30, 2005	48,116,384	72,301,290	120,417,674	\$38.35
Granted	8,251,700	—	8,251,700	71.41
Canceled	(2,244,585)	(72,424)	(2,317,009)	43.81
Exchanged for stock without restrictions	—	(25,904,367)	(25,904,367)	28.93
Amortization	(19,218,999)	19,218,999	—	—
Balance, November 30, 2006	34,904,500	65,543,498	100,447,998	\$43.37
Granted	38,839,114	—	38,839,114	68.92
Canceled	(4,720,625)	1,079,269	(3,641,356)	51.27
Exchanged for stock without restrictions	—	(17,716,614)	(17,716,614)	31.51
Amortization	(34,166,465)	34,166,465	—	—
Balance, November 30, 2007	34,856,524	83,072,618	117,929,142	\$53.33